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Federal Reserve Bank

District No. 2

Correspondence Files Division

STRONG

PAPERS

SUBJECT

2.) WARBURG TO STRONG
 1918 - 1928

ENV. 11-200M-8-26

AFTER 5 DAYS, RETURN TO
FEDERAL RESERVE BANK OF NEW YORK
FEDERAL RESERVE P. O. STATION
NEW YORK CITY, N. Y.

FILE IN PERSONAL FILES OF BENJ. STRONG

WAREBURG, PAUL M. ^{Retirement} ~~Resignation~~ from Federal Reserve Board

Letters to Benj. Strong dated 8.13.18 and 8.14.18

Handwritten mark, possibly "Fred" with a long horizontal line extending to the right.

Aug. 13th - 18.

WOODLANDS
WHITE PLAINS, NEW YORK

My dear Benj. Strong

I have some sort of a notion that I shall find a letter from you upon my return to Washington tonight. I came here for 3 days to stay "incognito" - away from expressions of sympathy, or worse, on the part of my friends. The truth is I did not want to be there when Mr. Adair returns.

I am through with him. As for myself nothing better could have happened for my personal comfort and safety. The decision may have been the only wise one in the circumstances - circumstances beyond anybody's control. But, there is no excuse for Mr. W's staying away till a day after my "expiration" - inspecting railroad - and even in 2 months and a half saying a word to me, or writing, or coming. After all I had done for him during these 4 years, and all his assurances of love and friendship, that

is not the way one colleague should act towards another.

My real regret is not for myself; it is for our work. I need not tell you what I think about that. It is a crime to disorganize that at a time like this. I cannot bear the thought that this work, which has been part of my life, is to be a thing apart from me in the future. Nor do I care I think of you, and some of the old faithful ones, as being now divorced from me in our daily thoughts and aspirations. It is too bad - for the country that God will should be interfered

with in this high handed manner. That
I could have been confirmed easily, I have
no doubt after the messages that I got
from democratic and republican Senators.
The worst of it is that a thing like this
destroys the enthusiasm of men to
serve their country. We plan to leave
next Monday for Lake Tahoe - via
Canada, to be gone till end of September.
I hope and pray that some port we will
be put on the F. R. Board - though I hope
they won't ask me about the pleasures and
opportunities for serving there - as a free
man. Thanks old man for all you have
to me! Good luck! Affectionately
(and truly)

PAUL M. WARBURG
WASHINGTON, D.C.

August 14, 1918.

Dear Strong:

I wrote you yesterday from New York, and upon my return find here your two very dear letters of August 9th and 10th -also your letter of August 13th. I will do my best, old man, to live up to your wise teachings. Of course you realize that it is easier to teach than to do things, but you yourself have shown me what patience and courage can do in trying times. I trust you will not find me wanting either.

As to going back to "money grabbing", quite between you and me and the angels, it does not appeal to me at all. On the other hand, it will take me sometime to find my bearings. It is impossible to concentrate your whole being upon one thing as much as I have done and then all of a sudden wipe it out and be ready to do something else. It will take time to find new ground under my feet and to develop some new interests. It cant be done in a jiffy, and it is for this reason that I am going to get away. I wish you could go along. We are leaving, as I believe I wrote you yesterday, on Tuesday eveing from New York, going via the Canadian Rockies to Lake Louise, and from there to Lake Tahoe, where we expect to stay for a fortnight.

What I shall do when I return to New York I do not yet know, but probably I shall remain in the country very quietly, and put down in writing for the benefit of my grandchildren my connection

with monetary reform since 1907.

I have written in a rough draft a pamphlet which deals with Senator Owen's hearing in connection with the so-called foreign exchange Federal Reserve bank. It is enough to blow this "S.O.B" out of the water, but I have some doubts as to the advisability of my getting balled up with a discussion of this kind, which most of the people will believe I have started out of spite. If I can get some one else to do it, I shall be only too happy to send them the material. Maybe I will send you the stuff as soon as I get a little further advanced with it, because I would like to get your reaction as to what you advise me to do with it.

As to Chapman: he has been made an Assistant to Broderick, however, so far his salary has not been increased and to stay where he is now will mean a loss ^{as against what he earned before, together with what I gave him in addition.} *He will be advanced soon, however* _{R.} He is a live-wire, loyal and intelligent and I should be only too happy to see him get an opportunity for a broader future. If you can offer him that I will be very glad to have you do so. Though, I believe that if the Board will only give him a chance, there is sufficient field for a very useful activity for him in Broderick's office. God knows they need able men who "know the ropes". Enough have left, and I wish for Broderick that the Board would enable him to keep Chapman where he can be useful to him. In any case, an offer from you will at this time be of help to him.

Take good care of yourself and don't get bitter about this unfortunate intermezzo, as far as I am concerned. It is discouraging

and aggravating that in a work that we have done unselfishly and to the very best of our ability, there should be such a thing as a rough and not entirely unselfish hand which interferes with securing the best results, but some how or other I have a feeling that at some time our roads will converge again, and that good work done is never lost.

Very sincerely yours,

Amelia

Benj. Strong, Esq.,
Woods Hole, Mass.

PAUL M. WARBURG
WASHINGTON, D.C.

Hartsdale, N. Y.,

November 1, 1918.

P.M.W.

NOV 20 1918

Dear Strong:

Yesterday I tried to look you up at the Plaza but found your place empty. I dropped in at the bank and had a talk with Mr. Treman, who told me about the brilliant results of your campaign, upon which I congratulate you very sincerely. He also told me that you had gone to Lenox, and I am glad that you are taking a rest, though I do regret that you did not take it out here.

Sometime ago I spoke to you about the article that I had written on Owen's investigation. Inasmuch as you may have a slow time where you are, I send you this thing herewith. If you care to read it, do - if you don't, don't.

I shall be glad to hear about your future plans. Please don't forget that with the Warburgs, friendships outlast official relations.

With best wishes for a pleasant holiday,

Always sincerely yours,

Paul M. Warburg

Benj. Strong, Esq.,
New York.

PREFACE

On June 27, 1918, at Senator Owen's request, I appeared before the Committee on Banking and Currency of the U. S. Senate in order to give testimony concerning the advisability of the establishment of the Federal foreign exchange bank, proposed by the Senator for the purpose of maintaining the rate of the dollar at par in foreign countries and of removing "unfair exchange profits" alleged by the Senator to be levied by American banks from American commerce and trade.

I presented myself before the committee in company with Governor Harding, Assistant Secretary Crosby, Mr. Albert Strauss and Mr. F. I. Kent. Mr. Crosby, in Secretary Madsen's absence and in view of a letter written to the Senate by the President, did not feel at liberty to express himself freely; on the other hand Governor Harding gave a full statement concerning the problem of the discount of the dollar exchange in neutral countries. He showed himself ready and anxious to discuss the pending bill when Senator Owen adjourned the hearing. In doing that, the Senator said that he realized the bill in its

present form was hastily drawn and defective, that he wished to await Secretary McAdoo's return before further proceeding with it and that he would rewrite it in consultation with the Federal Reserve Board in case he would decide to further push the measure. When we appeared before the Committee none of us, in spite of our request, had been provided with copies of the full testimony of the previous witnesses. The printed copies of only the first few hearings had been made available. Since then I have read the complete record, which does not contain the Senator's statement above referred to, nor is there any evidence at all that Messrs. Strauss, Kent and I appeared and were not heard. On the other hand the record shows a number of direct charges and innuendoes against the Board, its advisers, and the Federal Reserve banks, charges which should not be left uncontradicted. In July, when it became clear to me that while my connection with the Board was likely to end by August 10th, Senator Owen, though the head of the agitation against my reappointment, did not intend to give me an opportunity to appear again before his Committee, at least not before August 10th. - I dictated a memo, designed to analyze the hearing and particularly Senator Owen's charges and contentions. I did this because I felt that I owed it to myself

to leave, for the future, a definite record of my views, which are in entire harmony with those expressed before the Committee by Governor Harding, and at the same time, I wished to disabuse, if possible, the public mind of the impression that the Board was favoring the Senator's proposed legislation. The danger that the public be misled in this respect has since been increased by the issue of Senator Owen's circular letter of August 1st, addressed to importers and exporters in spite of the statement made at the closing of the hearing to two Board members and officials of the Treasury. The questionnaire and statement contained in this circular letter are as follows:

QUESTIONNAIRE TO IMPORTERS AND EXPORTERS.

1. Would it serve your interest as an importer or exporter to have established a Federal Reserve foreign bank through which you could obtain credit information with regard to foreign buyers and sellers, and conditions of shipment of exports and imports such as insurance, storage, etc?.
2. Would it serve your interests to have, through such an institution, international exchange stabilized on a basis of reasonable compensation for service rendered and the American dollar maintained at commercial par?.
3. Would it serve your interests to have such a bank serve as an intermediary to place international commercial acceptances, through the Federal Reserve System, in the principal banks of the United States?
4. Do you get accommodations as low as the British merchants - $3\frac{1}{2}$ per cent per annum - on international acceptances?
5. Do you favor establishing the Federal Reserve foreign bank? If you do or if you do not, will you please give your reasons?

STATEMENT.

The Federal Reserve foreign bank proposed is intended to begin with a capital only sufficient for a new establishment of this character, leaving open the expansion of the capital as the needs of the American commerce require.

It will be controlled by the Federal Reserve Board and a board of directors representing the Government of the United States. Thus, the bank would have no selfish interest to serve, but would have exclusively the interests of the American commerce at heart and would, because of its constitution, cooperate with other banks and bring into the service of commerce on fair terms the full banking powers of the United States. At present Lombard Street, having a gigantic available capital representing the banks of the whole world, will extend credits at $3\frac{1}{2}$ per cent, and a number of American banks are using Lombard Street for the accommodation of their own customers, thus paying an interest abroad and keeping in London a business which should be kept in the United States.

Attached hereto is a copy of the bill, subject to amendments found advisable.

It is believed that this bill, if enacted into law, will serve to stabilize the American dollar and make the dollar a standard measure of value in international contracts, and therefore very greatly promote American commerce, the value of which is always measured primarily in terms of dollars.

The policy of Great Britain of keeping her currency at par is well known to everybody, and it is believed that the American dollar can be kept at par only by having a publicly managed institution with this duty imposed upon it. The shipping of gold back and forth across the ocean is an economic waste and could be avoided by this bank³.

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Are the above questions asked by a Chairman anxious to secure for his committee - or for the country! - genuine and impartial information?, Or are these questions asked in order to produce an overwhelming indorsement of the preconceived views of a prosecutor rather than a judge?

(5)

Any importer and exporter, without any further information upon the subject, will, of course, answer in the affirmative that he would be pleased to receive information, that he would like to see the American dollar maintained at commercial par, and international exchange stabilized on a basis of reasonable compensation for service rendered. (He will answer in the affirmative even though he would not exactly know what "commercial par" is; nor what is really understood by "stabilization of international exchange on a basis of reasonable compensation")

The importers and exporters will no doubt answer in the affirmative question No. 3, though they will not know any more than I do what the Senator means when he proposed to have the Federal reserve foreign exchange bank serve as "an intermediary to place international commercial acceptances, through the Federal Reserve System, in the principal banks of the United States." What are international commercial acceptances? Dollar bills? or Sterling and Franc bills; that is foreign exchange? or both? and how is the Federal Reserve System to place them in the principal banks of the United States?. Who is the system? The Federal Reserve banks or the member banks? Does Senator Owen know? Or does it suit him better to be as vague and delphic as possible, in order to let everybody find in these expressions

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just what he wants? The people believe in the Federal Reserve System and are likely to indorse such suggestions, thinking that the Federal Reserve Board and the Federal Reserve banks are in favor of them. suggestions.

With respect to question 4. "Do you get accommodation as low as the British merchants - $3\frac{1}{2}\%$ per annum - on international acceptances?"

Is this an honest question? The Senator knows, and all witnesses have freely admitted, that the American discount rate for dollar acceptances is at present about $4\frac{1}{4}\%$, while in the beginning of the European war it was about $3\frac{1}{4}\%$. On the other hand it is a matter of fact that the English rate at the beginning of the war was over 5% and now, that we share the military and financial burdens of the Allies, has been reduced to $3\frac{1}{2}\%$.

I have dealt with this particular phenomenon more fully in my memorandum, suffice it to say here that Senator Owen does not ask this question for information, but in order to impart some information which will militate in favor of an affirmative reply to his question No. 5. If, indeed, any importer or exporter, after having answered the first four questions in the affirmative, and thinking that he is helping the Federal Reserve System, would feel grit enough, or sufficiently well informed to "give his reasons

for not favoring the Federal reserve foreign bank".

The tactics shown in this circular are characteristic of those manifested in the entire hearing.

Now as to the statement. The Federal reserve foreign bank, Senator Owen says "will be controlled by the Federal Reserve Board - and a board of directors representing the Government of the United States". (We shall pass that language, which is ambiguous, for it would indicate a divided control, while in the hearing the Senator has stated that the Board would control. The question is dealt with elsewhere in the memo.) "The bank would have no selfish interest to serve *** and bring into the service of commerce on fair terms the full banking powers of the United States".

(The attention of the reader is invited to the analysis contained in this expose' of the impossible methods by which "the full banking powers" of the United States" are to be brought into service and of the evidence upon which the charge of "unfair terms" is based.)

"At present Lombard Street having a gigantic available capital *** of the whole world, will extend credits at $3\frac{1}{2}\%$ ** and the policy of Great Britain of keeping her currency at par is well known to everybody"

Senator Owen knows that he here makes a willful mis-statement. The pound sterling is not kept at par in neutral countries, indeed he knows that it is quoted at a greater

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discount than the dollar in these markets. Furthermore, the sterling is at a discount of more than 3% in New York and would sell very much lower were it not for the financial assistance that we loyally grant our faithful ally, an assistance of which Senator Owen approves. If we withdrew that assistance there cannot be any doubt but that England's discount rate would move up considerably above our own rate, and dollar exchange in many a neutral country would rise at the expense of the sterling. The further assertions that "it is believed that the American dollar can be kept at par only by having a publicly managed institution with this duty imposed upon it -- 'and' -- it is believed that this bill will serve to stabilize the American dollar" have been dealt with exhaustively in my memo, which, I hope, will show convincingly that we are not dealing with a problem of banking machinery, but with a difficult and extremely delicate question of governmental policy. There will be few who will claim that we did wrong in sacrificing our dollars while England and France were sacrificing her sons. Whether, as Senator Owen believes, we went too far is a point upon which opinions may honestly and fairly differ. It is a question of degrees however concerning which the allied governments must reach an understanding with one another; it is not a problem to be dealt with by the Federal Reserve

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Board. Nor is it a question of a defective American banking machinery. National banks were late in establishing themselves in world markets, because it is only four years ago that Congress has given them the powers to develop foreign banking on a modern basis. Our banking machinery is developing rapidly and at an unprecedented rate, even though progress would have been still faster had Congress acted more promptly upon the amendments urged from time to time by the Board. The greatest danger to the growth of American banking lies in the threat of unnecessary and immature experiments of Governmental interference. We praise and wish to emulate England's banking system, but we forget that it attained its world position because commerce and banking were permitted to develop free and untrammelled by unnecessary and spiteful Government interference. Nobody believes more sincerely than I in Government control and regulation, but only where it is necessary and where it is not actuated by motives of venom or vanity or other personal motives or prejudices. Regulation must not cripple, it must promote.

P. M. W.

Lake Louise, September 1, 1918.

In following Senator Owen's speeches in the Senate and his statements during the hearings, it is necessary to study every line very carefully. Many of his assertions are very sound and may be accepted without hesitation, but upon this foundation of solid facts he proceeds to erect some phantastic structures which dazzle the novice and render it difficult for even a trained mind to discover the weak and dangerous spots. Moreover, we are dealing with a man of great intelligence and we have to follow him very closely in his arguments and methods if underneath the camouflage we wish clearly to recognize the real facts and the real man.

Let me begin by quoting a passage from the Senator's speech when opening the hearing and giving the description of the causes of the decline of the dollar exchange in neutral countries.

"The Chairman: It was stated that during the last year we had parted with gold, but most of that was what had passed from the United States prior to the embargo which was placed on gold last September, and it was the fact that the gold was flowing out of this country heavily that caused the embargo to be put on gold.

We have, of course, extended credits to Great Britain, France and Italy to the extent of \$5,000,000,000. since April 1917, so that we have gone beyond our own favorable balance of trade nearly \$2,000,000,000, and thereby made ourselves debtor to the neutral countries and in the Orient. That is the thing that has exercised so potent an influence in lowering the American dollar below par, because when these international adjustments are made between all the neutral nations and the belligerents all of these neutral nations shipping more to the belligerents that they are buying from the belligerents, all these neutral nations become creditor nations to whom either gold must be paid or credits must be arranged or commodities must be shipped. We have got to settle the world's debts to these neutrals, who are shipping more goods out than they are receiving; we have got to satisfy them either with commodities, with gold or with acceptable credits, and credits at present are preferable, in part at least.

Now, the problem which we have facing us is the means by which to bring the dollar to par and to keep it at par, and it is a serious problem, one that I believe this committee can solve and which I am deeply desirous should be solved, because it costs our people in taxes an enormous amount of money".

--- *Senator Shafroth. I thought the money which we advanced to the allies was to be spent only for the products of our own country - munitions of war. Is that still true?

The Chairman: No, sir; that is not true. We started out on that theory and thought we could carry it out, but the effect of that was that Great Britain, which is also lending large amounts of credit to our various allies, and all of these nations were buying on a huge scale from the neutrals. The effect of that was that the British pound sterling began to go down and down and down, and the consequence was that Great Britain, buying heavily from neutrals, found her pound sterling was not buying from the neutrals what it ought to buy - a pound sterling that ultimately would have to be redeemed in gold.

That resulted in Great Britain making a most urgent appeal to the United States to support the pound sterling, and we came to the support of the pound sterling. Just as when German propoganda began to withdraw silver from the treasury department of the Indian Government and put the Indian rupee in jeopardy, we furnished the metallic silver with which to protect the Indian treasury - a very wise and proper thing to do, because in this great war we have got to stand together. We want to help Great Britain as far as we possibly can. Great Britain borrows from us thousands of millions to keep her pound sterling at par. I commend her example to the American thinking statesmen.

But there is a line which the committee will discover as they proceed in the study of this problem, where our contributions for this purpose should be vised, so that we will not be furnishing money for other purposes than winning the war. We want to confine our advances to the purpose in which we are engaged in common, and not go beyond the call of a faithful ally to do our full part in this war. -----

The Chairman: It is somewhat difficult with the information at hand to determine just how that money is being employed; but we see, for instance - my attention was called to it - that British capital is buying up the international merchantile marine, buying out the Americans; British capital finances the sugar crop of Cuba, whereas the banks of the United States ought to have financed the sugar crops of Cuba, and did not. So, if our funds which we are lending for the purpose of carrying on the war are really being indirectly employed for commercial operations at the expense of our taxpayers, we should be informed with regard to that, and it is a question if we ought not to safeguard our own rights commercially while we still perform our full duty as a faithful ally. Those are the questions that are to be considered, I take it.

Senator Baird: If we want sugar or anything else for our soldiers, will not the Government have to finance it in some way?

The Chairman: Oh, yes; that has got to be financed. What I was referring to was the financing by British banks of the Cuban sugar crop here, which is so closely allied geographically. It would seem natural that our American bankers would finance the sugar crop of Cuba rather than have the sugar crop financed from London and have London call on us for more and more funds for the needs of the war while we find the British funds are being employed for these profit-making commercial purposes. A question arises there that I think we ought to consider. I am not very clear about it myself, because it may be entirely within the properties of the British banks to do that.

Here, in my judgement, is the remedy. It is to borrow from these neutral countries and pay whatever rate is necessary to obtain the loans; to borrow not only thru the government as far as that is practicable, it being remembered that a Government at war, as we are with Germany, cannot borrow directly from Norway or Sweden without Norway and Sweden being held as violating their neutrality, but these loans, if made by private agencies, must be made in a similar manner to that contemplated by the war finance corporation act, which authorized the bonds of the War Finance Corporation to be used in terms of foreign currency, so that these bonds, being acquired by American banks, trust companies, or private citizens, may be sold in neutral countries and in that way serve as a commodity shipment until after the war.

You will recall that the last liberty loan provided also that the liberty bonds might be made payable in terms of the currency of foreign countries; for the same purpose that private individuals, trust companies, and banks having bought these bonds may sell these bonds to neutral countries in exchange for commodities which it is desired to purchase, or for the purpose of placing credits in the neutral countries until after the war.

In order to overcome the amount due to neutral countries, which is the basis of the discount of the American dollar as well as the pound sterling, it is essential in my opinion either to ship gold or to transfer credits to these countries by the sale of American or English securities, or the placing of private credits in these foreign countries for the period of the war, and to pay the rate of interest which is essential to accomplish this and to

"give the security which would be satisfactory to the lending countries.

It is this question which I think of urgent importance as involving the principles in the case and in which I believe we should adopt as a principle the employment of every agency, public and private, by which these credits transfers can be successfully accomplished until the stress of the war is over."

Here we have a perfectly clear exposition of the case, stating the causes of the discount of the dollar, the parties that will have to come to an understanding in order to effectually to deal with the problem: - that is the allied governments with themselves on the one side and with the neutrals on the other, - and a proposed method of securing relief by securing credits abroad. We shall discuss later how far an adjustment can be brought about by such loans, and what kind of loans are desirable and undesirable; also, the question of how far it may be necessary for the allies to promote the solution of the problem by a more scientific and concerted control of their purchases from and sale of goods to neutrals.

Suffice it is to say that after giving here a fairly accurate prognosis of the case indicating at the same time the lines of thought we have to pursue in seeking the remedy, Senator Owens proceeds to befog the issue, and to pervert the public mind, by charging in other parts of his speeches and statements indifference and

neglect of duty on the part of those in charge of the F. R. System and greed on the part of the New York Banks as responsible for the evil and seeking in consequence remedial action on these lines.

These charges are so obviously unfair and ridiculous that we might be asked why we take them seriously at all and dignify them by a closer analysis and reply? There is sufficient evidence, however, that Senators are so busy at this time that they cannot devote a close study to intricate questions of this sort and there is danger that Senator Owen's persistent campaign may bring numerous converts to his ranks unless the bubble is pricked. And the same danger exists with regard to the public and the press. Harmful legislation has often been the result of lethargy on the part of those who knew better.

Let us begin by recapitulating the Senator's bill of complaint: he stated: 1.) that the American dollar sold at a substantial discount in neutral countries; 2.) that this condition of things could have been avoided if the Federal Reserve Board had insisted upon opening branches of Federal Reserve banks in foreign countries; 3.) that the Federal Reserve banks had been unwilling to open these branches, and 4.) that while

the Board had asked for power to force these Federal Reserve banks to open such branches, and had received such power from Congress, it had been remiss in its duties in not forcing the Federal Reserve banks to open such branches. (5.) that the Federal Reserve banks had been unwilling to open these branches because they were under the influence of the New York member banks, who were profiteering in foreign exchange, and who, (6.) were pocketing the large profits arising from the excessive premium of these foreign exchanges; that (7.) both the importer and exporter were losing millions through the discount of the dollar in neutral countries; (8.) that the banks in the interior had no direct foreign exchange connection, that they suffered thereby and that in order to protect them, and to protect the business men, the Federal Reserve banks ought to act as clearing houses for all foreign transactions; (9.) that if this had been done or were done in the future no substantial funds of the Federal Reserve banks would be involved because - if there was a complete concentration of all foreign exchange transactions in the Federal Reserve banks, these transactions would offset one another and that thereby the dollar would be kept at "commercial par" at all times; (10.) that

the Bank of England protected the British pound sterling and the British interests; 11.) that bankers could not be considered the proper custodians of the proposed Federal Reserve Exchange Bank on account of their selfish interests and points of view, and that England did not, for that reason, permit any banker to act as a director of the Bank of England, but only merchants; 12.) that only a governmental agency could cure the evil, that therefore a governmental bank should be organized.

It may be proper^{first} briefly to see how much of this bill of complaint survived the hearing:

1.) That the American dollar sells at a substantial discount in neutral countries is conceded as a regrettable fact.

2.) That this condition of things could have been avoided if the Federal Reserve Board had insisted upon opening branches of Federal Reserve banks in foreign countries, has been freely denied. It has generally been stated, and admitted by Senator Owen, that the discount (where it is not caused by our own debit trade balances) of the dollar in neutral countries^a is due to the fact that as a consequence of policy adopted by the respective governments the sterling and franc exchanges are "pegged" at New York, and that this definite relation having been established between the dollar exchange and sterling and franc exchanges, the three have to remain in a definite relationship

in neutral countries; that England and France being heavy purchasers of goods in neutral countries and being unable to liquidate their debts by exporting an equivalent in merchandise or in gold, have incurred heavy debit trade balances in neutral countries and that the United States by opening dollar credits from time to time to England and France has enabled and permitted these two countries to liquidate their debts in neutral countries by drawing on their New York credits and to offer the dollar in these neutral countries down to approximately the price level determined by the fixed relationship established through the "pegging" of these exchanges in New York.

The balances thus to be settled by the allies amount to hundreds of millions of dollars a year. When imagining that Federal Reserve banks by opening branches in neutral countries could have eliminated the discount of the dollar in neutral countries, the Senator must assume therefore that the Federal Reserve banks would have been able to borrow in these foreign countries amounts that in case of a protracted duration of the war might involve in the aggregate something like a billion dollars or more. It is to be noted, however, that the law does not vest the Federal Reserve banks with any such power to contract for loans in foreign countries. As a matter of fact, the Federal Reserve Banks have no power to open "branches. They may establish "agencies

and correspondents", with very clear restricted functions, the most important of which is to purchase and sell "commercial bills of exchange (or acceptances) arising out of commercial transactions bearing at least two signatures." The Chairman of the Banking and Currency Committee of the Senate appears to ignore that the Federal Reserve banks today have no power to open branches and have no power to borrow, and, that therefore, they had no power to do the very thing he reproaches them for having left undone.

3.) That the Federal Reserve banks had been unwilling to open these branches, and (4) that the Board had asked for power to force these Federal Reserve banks to open such branches, but, having received such power from Congress, had been remiss in its duties in not forcing the Federal Reserve banks to open such branches.

As already stated, the Board would not force the Federal Reserve banks to open branches because Federal Reserve banks had no power to open branches, but in the Board's record there will not be found a single instance where the Board suggested to the Federal Reserve banks to establish foreign agencies or correspondents and where the Federal Reserve Banks declined to do so. The Board asked for power to enforce the establishment of domestic branches, for which, in some cases, Federal Reserve banks had not shown sufficient enthusiasm, but

as to the foreign relations, the amendment was suggested mainly for the reason that the Board desired to secure power for Federal Reserve banks to open reciprocal accounts:- the original law having provided only that the Federal Reserve banks could open accounts in foreign countries, but did not provide that the Federal Reserve banks on their part could open accounts in foreign banks and correspondents. Furthermore, the Board wished to have specific power to allot itself these foreign accounts amongst the several Federal Reserve banks, permitting one bank to act for all, under the direction of the Board; and power to direct the establishment of these foreign agencies was furthermore considered desirable because that would enable the Board, in conjunction with the Secretary of the Treasury, to enter into negotiations with foreign governments without the necessity of being dependent, for the completion of such negotiations, upon the approval of one or all Federal Reserve banks. This power has proved very useful in recent dealings with allied and neutral countries. It ought to be reiterated, however, with all emphasis, that at no time was there shown by any Federal Reserve bank any disinclination to act promptly upon suggestions of the Board concerning the establishment of foreign agencies or relations.

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Indeed the Board wrote on January 4, 1917, to the Federal reserve bank of New York, inviting it to get in touch with the Bank of Spain, the Banco de la Nacion of Buenos Ayres and with the Bank of Norway, relations having already been established with the Bank of England, Banque de France, Bank of Italy, Bank of Japan, the National Bank of the Phillipines and the Bank of the Netherlands. The New York bank promptly took up these negotiations. However, in the case of the Bank of Spain, they did not materialize, because the Bank of Spain did not show any inclination to act as agent for the Federal reserve bank of New York. While relations have thus been established with the Banks of England, France, Italy, Japan, Phillipines, Netherlands, Argentine and Bolivia (further negotiations being pending at this time), there has not yet been any occasion so far for foreign exchange dealings, the transactions between the Federal reserve bank and their agencies having been confined to ear marking gold or maintain gold balances for one another, so as to avoid shipping it across the ocean.

Whether or not the Federal reserve banks should enter the field of foreign exchange was frequently discussed by the Board, both with the Federal reserve banks and the Advisory Council. The conclusions reached were invariably in the negative. It takes no expert knowledge to see the reasons for

this finding. In buying sterling, francs, lira or rubles, the Federal reserve banks would have incurred a serious risk and their policy in this respect has been vindicated by subsequent events; for if they had entered the field boldly they would have lost millions of dollars. The disastrous decline of the Ruble exchange is a matter of general knowledge and if today the Federal reserve banks kept a large portfolio of British bills, which in the United States have declined least of all allied exchanges, and if for one reason or another (or, maybe, as a consequence of Senator Owen's campaign) the British and United States Treasury should decide to discontinue the "pegging" of sterling exchange, the Federal reserve banks, in that case, might be exposed to a very severe loss. This "pegging" of exchange no doubt has involved hundreds of millions of dollars, for which the British Treasury has drawn upon the credits opened by us here. It would, therefore, have involved sums far beyond those available to Federal reserve banks for that purpose to deal effectively with this exchange problem. Without neglecting all dictates of prudence they could not have invested in foreign bills beyond a reasonable amount, and such conservative limits under present conditions would soon have been reached without any possibility of staying the trend of the fluctuations of exchanges. Indeed, had the regulation of foreign exchanges

been left to the Federal reserve banks and not to the respective Treasuries, with their power to sell untold billions of government bonds, the ultimate consequence would have been a drastic fall of the sterling exchange which would have occurred after the Federal reserve banks would have had invested some fifty or even one hundred millions or more in foreign bills. Federal reserve banks would thus have incurred a serious loss on that investment and at the same time they would have undermined the confidence of the member banks in the ready availability and proper use of their reserve money. The phenomenal growth of the Federal Reserve System, both in membership and scope, and its efforts to accumulate its large present gold holdings would have been thwarted.

It must be noted, however, that in buying these exchanges Federal reserve banks could have protected only the exchanges of countries where the dollar stands at a premium. The exchanges of countries where the dollar sells at a discount could not have been adjusted by buying exchange, but only by borrowing.

From the above it can readily be seen how unwise, improper and futile it would have been for Federal reserve banks to enter the foreign exchange field. If, however, the Federal Reserve Board and the Federal reserve banks had reached the conclusion that any good could result from actively engaging

in foreign exchange operations, they would have done so. It is a slanderous misrepresentation of facts to say that the Federal reserve bank of New York was unwilling to go into the foreign exchange field or to open foreign branches, because the interests of the New York banks and bankers were adverse to such a step, the alleged reason being that it would have interfered with the large profits which the latter were making in foreign exchange.

The expert foreign exchange dealers appearing before the Committee testified that normally the competition in the field of foreign exchange is so keen and the margin on which this business is being done is so narrow that a great many of the firms that in years gone by had engaged in foreign exchange transactions have abandoned that field today. It should be a matter of indifference to the present foreign exchange dealers whether or not one additional large bank would be established in order to buy and sell foreign exchange - the competition could thereby not become keener than it is in normal times.

Senator Owen charged that due to the fact that banks in the interior had no direct foreign relations, a merchant was forced to pay four times a commission of $\frac{1}{4}\%$ in order to finance a purchase of \$100,000. worth of oil in Spain. This case was cited by the Senator over and over again, but when asked to substantiate it he refrained from doing so. The

Committee on Banking and Currency ought to insist that Senator Owen name this customer and put him on the witness stand, and that the banks charged by Senator Owen as having made these charges also be invited. I challenge his statement as dangerously misleading.. If it had been a plain case of a remittance to Spain, there is no reason on earth why the several banks and the merchant should have gone through these various intermediaries. It is more than likely that testimony would elicit the fact that it was not a question of a purchase of exchange, but a question of a loan for the purpose of borrowing in foreign countries in order to avoid the purchase of exchange, that is to say, in order to finance a pure bear exchange speculation. This, however, for the time being, can only be stated as an assumption. It is intolerable, however, that charges of profiteering should be made by the Chairman of the Committee on Banking and Currency without his feeling in duty bound to furnish his Committee with the full and reliable evidence in the case. When one of the witnesses introduced the draft of a report of a committee of the United States Chamber of Commerce, which was adverse to the establishment of a Federal foreign exchange bank, Senator Owen insisted that this report should not be permitted to go into the record unless the writers of the report were named, and their signatures attached to the same. Senator Owen's request was perfectly justified in that instance, but he certainly should apply ~~it~~ to

his own statements the same rule as he establishes for the testimony of others.

It may be worth while to examine a little more closely the proceedings in this respect.

On page 190, Senator Owen, in cross questioning a banker from Baltimore, expressed himself:

The Chairman: Is it your contention that the banks only charge one sixteenth of one per cent for handling international exchange.

Mr. Wilcox: No; they charge as a rule, what they can get and what it is worth to them I think.

The Chairman: I happen to have heard of a single transaction where a bank in this city charged one half of 1 per cent, another bank in Baltimore charged one half of one per cent, a third bank in New York charged one half of one per cent on the same transaction, and a bank in Barcelona, Spain, charged one half of one per cent on the same transaction. In other words, they charged two per cent for transferring the credit which was secured in the United States by adequate security.

Mr. Wilcox: I cannot conceive of any such thing as that Senator. It might have done it for loaning the acceptance or something of that sort, which is not for transferring of money.

The Chairman: I only say so upon the statement of the man who paid the money.

Mr. Wilcox: I am afraid he probably kept some of it back from you.

The Chairman: I am confident he did not keep anything back.

Note how subtle are these statements of the Chairman; his first question is "Is it your contention that the banks

only charge one-sixteenth of one per cent for handling international exchange", and in the next paragraph he used the words "In other words, they charged two per cent for transferring the credit which was secured in the United States by adequate security". If it had been simply a purchase of exchange, there was no need for "securing" anything by "adequate security". It would have been a plain purchase of exchange, which would have been paid for in cash. But while this all important difference would not occur to any member of the Committee untrained in banking, or to the public at large, it is as clear as can be that this was a question not of a simple purchase of exchange, but of securing an advance in pesetas in Spain against what was probably insufficient security. As a matter of fact, later developments in the particular case which I have reasons to believe the Senator has in mind, proved that the banks were not "adequately or as he stated in another speech "involved no risk whatever" secured"/and that they were threatened with a heavy loss on these loans, granted to a speculative concern of insufficient financial and doubtful moral standing.

In a similar manner Senator Owen made the statement that the National City Bank made a profit of \$900,000. in dealing in South American exchange. It is significant that this statement was made shortly after Mr. Cooby, a Vice-President of the National City Bank, had been on the stand. Members of the Committee are certainly entitled to wonder why this

statement was not made when Mr. Cosby was present. Where did the Senator secure this information? When pressed by a member of his Committee he was not willing to disclose his source of information. From the facts given nobody could tell whether the profit was gross or net, how much money was invested in the venture, and whether it was a successful speculation in South American exchange, some of which are wildly fluctuating, or whether, as the casual reader would conclude, it was an excessive charge made to American business men buying South American exchange. The National City Bank has at this time a vast system of foreign branches. Is it not more than likely that while some of these ventures turned out to be profitable ones, other branches - for instance those opened in Russia - were the cause of heavy losses? The business in foreign countries with widely fluctuating exchanges and politically uncertain conditions is a very hazardous one. For years banks doing business in India, China, Brazil and Chile had to write off very heavy amounts on account of the heavy decline in these exchanges, which f.i., in the case of the Orient, fell for years in connection with the drop in the price of silver.

Indeed that is one of the reasons why the Federal Reserve Board did not feel justified in investing what it considered as sacred reserve funds of the Federal Reserve System in bills

and balances in quite a number of foreign countries where exchanges are unstable.

Senator Owen ought to be requested by his Committee to produce the full facts on which he based this statement as to the operations of the National City Bank in foreign countries. Ex parte statements of this character are inexcusable in a case where a representative of that bank had come to Washington prepared to give all the authentic information the Committee would have desired.

There has since been secured from the Nat'l City Bank a statement showing the exchange profits of the South American branches of the National City Bank, which are as follows:

	<u>Exchange Profits</u>
Bahia	\$ 2,290.00
Rio de Janeiro	3,900.00
Santos	10,010.00
Sao Paulo	83,000.00
Buenos Ayres	108,000.00
Valparaiso	213,000.00
Montevideo	25,651.00
	<hr style="width: 100%; border: 0.5px solid black;"/>
	\$ 442,851.00
Caracas exchange loss	3,400.00
TOTAL EXCHANGE Profits -	\$ 439,451.00

In this connection it was stated that the exchange profit of \$213,000. shown as having been made by the Valparaiso branch, was largely made up of commissions which the National City Bank was able to charge in connection with gold shipments made for the Chilean Government. The profit appears therefore

to have been derived from a foreign government rather than from American business men.

How are these figures to be reconciled with the Senator's statement of a profit of \$200,000.00?

It is important, however, to get at the real facts in the case, because it is on this kind of evidence that Senator Owen bases his argument for the necessity of establishing his Federal Reserve foreign bank. He says in this connection (Page 277):

"I am proposing to have a Federal reserve bank that would be able to furnish facilities at a fair rate and then the banks engaged in this business would have a potential competitor that would fix a fair rate, just as a fair rate is fixed in London, so that American commerce could not be subjected to charges that might be unfair to such commerce as compared with English, German or French commerce".

It may be observed in this connection that in normal times these English, German and French banks in South America have their correspondents in New York and that our American branches have to compete with these foreign banks for the business that American houses would have to offer.

With respect to exchange profits made by the New York banks in dealing with European neutrals, Senator Owen has indicated over and over again that these banks, or some of them, are "profiteering", that the high premium commanded by neutral exchanges redounds so largely to their benefit that they cannot be expected to raise a hand to bring about more

normal conditions, and that "the banks should not be permitted to tamper with our financial yardstick". The annual exchange profits of the banks, not figuring interest charged, he states to be estimated at \$100,000,000.00. In this connection he further said- "I am suggesting that the Act of Congress of June 31, 1917, be put into effect so that through the Federal reserve banks these exchanges could be accomplished at a minimum cost, without unfair profit to speculators in Spanish exchange, and on a scale sufficient to meet our active import-export requirements."

Upon Senator Owen's request the Board asked all the banks of New York having foreign exchange departments (seventy three in number) to state the exchange profits made by them during the last four months in dealing in exchanges of European neutral countries. In its September issue of the Federal Reserve Bulletin, ^{the Board} published the replies received, which showed that the seventy three banks together in dealing with Denmark made profits on exchange transactions of \$4,204.12; in dealing with Norway \$148,108.77; and in dealing with Sweden of \$88,539.90; Holland of \$110,310.13; and that in dealing with Switzerland they lost \$10,261.59, and in dealing with Spain they lost \$51,578.80. It appears, therefore that, taking them as a whole, these New York banks did not derive excessive advantages from the rise of the Spanish rate of exchange to 40% premium, indeed during the

period specified by Senator Owen they lost. Senator Owen's statement seems hardly to be justified by the above figures. They prove that the loss of the United States through the discount of the dollar- which the Senator arbitrarily estimates at one million dollars a day- certainly does not accrue as a profit to the New York banks.

The calculated annual rate on total purchases is given by the Bulletin as follows:

For Sweden,	gross profits	0.055%	net profit	0.046%
Denmark,	"	"	"	0.007%
Holland,	"	"	"	0.041%
Switzerland,	"	"	"	0.002% (loss)

Spain shows losses both for gross and net.

(In the appendix there will be found a reprint from the Federal Reserve Bulletin of the full report made by the banks)

The directors of the Federal Reserve Bank of New York, of whom only one is an officer of a New York member bank (Mr. Woodward, Director of the Hanover National Bank), have every cause to resent the slander indulged in by Senator Owen when he stated that the New York directors of the Federal Reserve bank were under the influence of the New York banks when they showed themselves disinclined to let the Federal Reserve bank go actively into the field of foreign exchange. The majority of these directors are either business men or they represent banks outside of New York. The innuendo as to the doubts of the disinterestedness of the directors of the Federal Reserve bank of New York is emphasized by the statement made over and

over again by the Senator, that the bankers are not fit to consider from a national unselfish point of view the real needs and requirements of the country, and that for that reason the Bank of England did not permit any banker to act on the Board of the Bank of England. This statement is as mischievous as it is misleading. About half of the Board of the Bank of England consists of men who, only by a misnomer, are termed "merchants". Members of the leading British private banking firms like Morgans, Barings, Hambros, Huths and Lazards are directors of the Bank of England. In order to understand the situation we simply have to bear in mind that the American private banking firms corresponding to these English houses, being firms like J. P. Morgan & Company, Kidder, Peabody & Company, Kuhn, Loeb & Company, Brown Brothers & Company, Lazard Freres, Goldman Sachs & Company, would be termed "merchants" in England. These British "merchants" are the very firms that negotiate foreign loans in England, and some are leaders in the granting of foreign credits. In addition to that, the President and Vice-President respectively of the Hong Kong and Shanghai Banking Corporation and the London and Brazilian Bank are members of the Board of Directors of the Bank of England.

Either Senator Owen is grossly ignorant or he is reckless, in making assertions which, of necessity, must mislead his colleagues in the Banking and Currency Committee and the country at large.

Senator Owen creates the impression as if the American banks dealing in foreign exchange were profiting more because some of the neutral exchanges sell at a 40% premium than if exchanges would be nearer the normal range of prices. The casual reader might easily be misled into the belief that this 40% goes either into the pocket of the American banker, or in the case of pesetas, into the pocket of the shrewd Spaniard, who can buy so many more dollars with his pesetas. The evidence at the hearing threw a great deal of light on this condition and made it clear to most of those present that exchange is the consequence of other transactions - generally commercial transactions - and not the cause.

The banker does not enjoy a larger profit in dealing in exchange whether exchange sells at 40% premium or 40% discount, unless he is a successful speculator.* Banking statistics of the United States at this time indicate that, as a net result, our banks are borrowers in Spain and that, therefore, as a group, they have no large balances on which they would earn large profits by a further rise in exchange - the figures already given indicate that the reverse is the case.

At the outset Senator Owen propounded the theory that both the importer and exporter were losing through the discount of the dollar in neutral countries. His illustration was that the United States - while importing from Spain \$30,000,000. of goods and exporting \$30,000,000. worth, was losing on both transactions (*) though with heavily fluctuating exchanges the margin - that is the insurance premium - is naturally larger than with the stable exchanges.

and he claimed that the loss on our Spanish business amounts to \$30,000,000. a year "due to the discount of 25% of the dollar exchange in Spain". The absurdity of such a contention must be clear to all who followed the hearing, and I do not believe the Senator himself would continue to maintain this early statement of his. In a later speech he modified his views as follows:

"As a matter of fact an exporter neither gains nor loses. A man who takes a thousand dollars worth of goods from New York to Barcelona gets his \$1000. and if he pays the freight and commissions, he gets his freight and commission back and \$1000. If he gets three pesetas for a dollar he immediately sells his pesetas for dollars and gets the dollars back, and it comes out the same - \$1000."

(Gov. Harding's testimony throws a great deal of light on that phase of the subject. It is reprinted in the appendix)

The Senator contends that if the Fed. Res. banks had gone into the foreign exchange business they could have done so without any substantial investment of their funds -his idea being that the mere fact of their establishing these agencies would have put them in position to force every American importer to buy all the foreign exchange from the Federal Reserve banks, and at the same time the exporter would be obliged to sell all his foreign exchange to the Federal Reserve bank and that these transactions would offset one another at the Federal Reserve bank, which, therefore, first would not invest any money; and second- could thereby fix one price for the famous "commercial par of exchange" and maintain it forever and a day.

What power did the Federal Reserve banks have "under the Act of Congress of June 21, 1917" to force every American seller or buyer of exchange to deal only with them? Senator Owen, one of the writers of the Federal Reserve Act, certainly

should be able to point out the paragraph which vests the Federal Reserve banks with such power. Three points appear to have been overlooked by the Senator when he contends that such transactions could be carried out without a substantial investment of funds, and that they would lead to a stabilization of foreign exchanges: first, that imports and exports do not offset at all times. To illustrate: There are certain months when we used to buy very heavily from England in excess of what we exported to her, and other months when in turn we settled our temporary indebtedness to her when our crops were ready to be moved. During the time that we bought more than we sold, exchange on England was high and that acted as a stimulus for our bankers and cotton exporters to draw in advance finance bills on England or to borrow in England in order to cover these sterling loans at lower exchange prices when the masses of grain and cotton bills would come into the market. Thousands of individual bankers and shippers thus applied their credit to bridge such interval.

If on the assumption that imports and exports would always offset each other, exchange were kept "stabilized" at a definite point and did not fluctuate, there would not be any incentive for anybody to draw in advance or to contract for loans in another country in anticipation of coming bills, and the consequence would be that the "foreign exchange bank" in that case would have to provide or buy all the sterling which

would be required or offered at a certain period, because if it did not, it would cease to stabilize exchange. In order to buy this exchange, it would have to enjoy an unlimited investment power and in order to provide this exchange it would have to have an unlimited borrowing power, both of which Federal Reserve banks do not possess. No single bank, no matter how large would be in position to render the service which in normal times all the banks of the world combine in rendering, for it must be borne in mind that when, f. i., sterling exchange is high, not only do American banks borrow in London, but the British banks at the same time build up their dollar balances in the United States ^{or accumulate dollar acceptances} in anticipation of the demands of exchange that are bound to come.

With the making of the cotton and grain crop, there generally comes to the market an avalanche of export bills, and to the extent that these bills exceed what has been drawn in advance and what can be offset by balances or goods, there will be an excess of sterling bills; which at times conceivably may amount to hundreds of millions, and which in that case, if they are the only banks operating in the foreign exchange field, the Federal Reserve banks would have to buy.

As stated before, if during these last four years

Federal Reserve banks had been stabilizing exchange in this manner, they would have invested every cent of the funds available for such purchases in buying sterling, francs, rubles and lira, and the very moment they would have reached their limit and would have been forced to stop, the drop in these exchanges would have occurred with consequent losses to the Federal Reserve banks.

In addition, however, we must bear in mind that control of the purchase and sale of foreign exchanges in the United States does not regulate the dollar exchange - it has to be

controlled at the same time in every other country. By what power on earth does the Senator believe that a Federal Reserve bank by opening a branch in Barcelona could compel all Spanish dealers to buy and sell their dollar exchange only through this Federal Reserve bank? In order to adequately judge the true meaning of such a proposition, it is sufficient to ask oneself whether or not our American banks would submit to such a plan if the Bank of Spain opened a branch in the United States and required ^{that} American banks should not deal amongst each other or deal with any Spanish bank except through the branch of the Bank of Spain. Would we submit to that?*) The fact then is that first, if all American exchange transactions were combined in the Federal Reserve bank, they would not offset at all times, and secondly, the mere concentration of these transactions in the United States, if practicable, would not do the trick, because the European markets would remain uncontrolled. Third, Federal Reserve banks would have to be in position to invest an unlimited amount in foreign exchanges or have the power and ability to borrow an unlimited amount in foreign countries if any stabilization of exchange is to be brought about.

The range of exchanges is normally regulated by the cost at which balances may be created by shipping gold from

*) The provision in Sen. Owen's bill that "No bank other than the foreign exchange bank shall sell dollar acceptances at less than gold par, etc" would prove futile for the same reason. As long as we could not put the same embargo on other allied and neutral countries, they could be dealing in dollars at a discount developing their exchange market, while ours would be put out of business.

one country to another. When these normal regulators will be reinstated, there will be no necessity for a foreign exchange bank in order to maintain the gold parities. Unless on the other hand, these normal regulators are reinstated, it is beyond the power of the Federal Reserve banks to regulate foreign exchanges. Hundreds of millions of dollars in gold have been shipped, and hundreds of millions of dollars have been borrowed by the allies in neutral countries, but that has not been sufficient to reestablish the gold par of exchange.

Has it ever occurred to the Chairman of the Banking and Currency Committee of the Senate that without these fluctuations in foreign exchange, we would lose the equalizing force of temporary loans and investments made by banks whenever exchange is low - and that, amongst other things, I believe was the thought that Mr. Kent tried to convey when he pointed to one of the compensating advantages of the discount of the dollar, though I frankly confess that his statement, unfortunately, lent itself to a different interpretation. (*)

(*) It would have been fairer, however, both to Mr. Kent and the country at large if not an abstract from the New York American had been introduced into the record by Senator Owen with the headline manufactured by that paper "Why the Federal Reserve Board - etc." but if the paper in full had been inserted with its proper title, viz. "

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and presenting Mr. Kent's own individual thoughts as a member of the Foreign Trade Council and speaking in no wise for the Federal Reserve Board.

As I understand him the thought he wished to express was that the most serious aspect of the case was not the discount of the dollar, but the heavy indebtedness of the allied countries to neutral countries which causes the discount of allied exchanges in neutral countries. If, in spite of this indebtedness, we could maintain exchange at par, there would not be any incentive at all for the neutral banker ~~to make us any loans unless~~ to make us any loans unless we paid very exorbitant interest rates. As it is, the discount of the dollar, franc or sterling, - all three standing together - has the effect upon neutral countries, first of gravely obstructing their export business - illustrations for which have been cited at length in Governor Harding's testimony, and, second, of stimulating loans in dollars sterling or francs to allied countries at the extraordinary low rates at which these exchanges can now be bought by the neutrals. In other words, the discount of allied exchanges carried with itself elements of remedy of an unsound condition created by excessive buying in neutral countries combined with an excessive curtailment of allied sales of goods to these neutral countries.

Senator Owen has repeatedly cited the Bank of England as a model for the Federal Reserve System, the impression

being given that the Bank of England has been instrumental in keeping the sterling at par and in providing British business men in foreign countries with all the facilities required for the fullest development of their trade. One reason for this, according to Senator Owen, is that the directors of the Bank of England are merchants. We have shown the flimsiness of that argument, which is based on a mis-statement or misunderstanding of facts. As to the other contention - that England has maintained the sterling at par - we can only repeat that this is another serious mis-statement because, as is well known, wherever the dollar sells at a discount, the British sterling sells at a greater discount than the dollar. It is true that England has been able to maintain her sterling at a discount of only 3% approximately in New York, but that is not due to the excellence of the service rendered by the Bank of England, but exclusively due to the excellence of our credit and to the strength of the Federal Reserve System, which enables us to extend to our ally financial support amounting to billions of dollars.

If the United States had not joined the allies, or if the United States had insisted that not one cent of all credits granted by our ^{government} to England should be spent except for the payment of goods bought by the British Government in the United States, ^{it is safe to assume} the pound sterling/would have sold at a substantial discount, no matter how excellent the

service rendered by the Bank of England, unless England had been able to restrict her purchases of goods in foreign countries to the amount that she could pay for by her own exports and by her loans contracted in such neutral countries instead of using credits in the United States.

The Bank of England has no foreign branches, except such as in Ottawa, established for war purposes. To my knowledge the only foreign agency that the Bank of England has ever established is that in New York with the Federal Reserve bank, and this agency so far has served no other purpose than the mutual earmarking of gold. Neither the Banque de France, nor the Reichbank have branches in foreign countries.

Senator Owen claims that these Federal Reserve branches or the branches or agencies of this new F. R. Foreign bank, are essential for three purposes: first, for providing the machinery necessary in order to contract loans and credits in foreign countries; second, to facilitate American business in foreign countries; and third, to keep dollar exchange at par.

FOOTNOTE: It has been indicated quite frequently during the hearing that the foreign Central banks are assisting their nationals, selling their goods on long term credit in South America, by taking their nine months' paper and buying foreign exchange. It will be interesting to study the last annual reports (before the beginning of the war) of the Bank of England, Banque de France and Reichbank and to state from these authentic documents how large an amount each had invested in nine months' paper and foreign exchange.

The figures are as follows:

It will be seen from the above that not the Central banks, but the stock banks of the several countries are assisting their nationals in developing their foreign business and that the central banks confine their activities mainly to the two functions above described thus giving the stock banks the strong backing which enables them to finance and aid the trade of the country.

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It would be tiring the reader further to elaborate the last named point, but it is interesting to note that his first contention - viz., that it is necessary to create this branch machinery in order to place bank loans in foreign countries, - runs counter to all banking experience. The large loans contracted by England in the United States were not negotiated by the Bank of England or its agency. The British Government sent over to the United States some negotiators, who entered into pour-parlers with our important American issuing houses; and, after we became associated in the war, the loans were negotiated by British diplomats or commissioners directly with the Government. Government was dealing with Government in that case, but there were no negotiations in this connection between the Bank of England and the Federal Reserve bank. When French loans were placed in the United States, it was not a question of using the agency of the Credit Lyonnais in New York, but again negotiations were entered into with leading American private banking firms and banks in order to place these loans.

It may not have occurred to the Senator, and it may be useful for him to know, that in order to place bonds in a foreign country one needs the confidence of the foreign people, and these foreign investors are used to follow their own banks and bankers while the branch of a foreign bank in these countries can reach only a very small number.

For a few years preceding the outbreak of the war, several very large issues of American railroad bonds were placed in France, but it was only possible to carry through these transactions by interesting the large French Stock banks, which have hundreds of agencies all over the country capable of distributing these loans to the smallest investor. It took these French banks many generations to establish these agencies and ^{the} millions of threads that lead to the savings of the people. There were American firms established in Paris at that time but they would have been incapable of carrying through this process of distribution as successfully as the local French banks. Similar conditions prevail in all countries. A Federal Reserve bank or a Federal Reserve Foreign Exchange bank opening a branch in Spain would be just as incapable of placing these loans with the Spanish investor as a newly established British bank. In order to carry through such transactions, it would be necessary to line up the Spanish banks and investment houses, and efforts to this effect can be made by di-

rest negotiations without any Federal Reserve bank machinery, just as well as the British and French attained their results and in other countries here/without any branch of the Bank of England or the Banque de France.

Senator Owen insists, however, that in order to sell our bonds abroad it is necessary to have a large mechanism of foreign branches. He does not believe that American negotiators can possibly achieve results in a similar manner as it has been done by England and France. The following is an abstract from his hearing:

Mr. Arnold: No; I can not understand wherein this organization will improve the mechanism. They have done it with Argentina and with India. They would have the same power to do it with the other countries if the other countries are willing.

The Chairman: They are doing it, just as individuals, carrying on a negotiation. They are trying to carry on negotiation with certain neutrals through Mr. Oscar T. Crosby, a very able man, but he is only one individual. He goes as an individual, and he has only a limited number of hours a day, and his points of contact with the Banks of Spain are very limited. If there were an organization behind Mr. Crosby whereby he could use the Credit Lyonnais and other well-known banks that have branches in Spain; and if he could use the connections of all the various Spanish banks and merchants through an organization that would reach them, he might accomplish very much greater results. What I was contemplating was an extension of the mechanism by which to accomplish this, because we are losing about \$1,000,000.00 a day, according to the best estimate I can make, through our international exchanges.

Senator Page: One word before you go on, Mr. Arnold, lest you misunderstand me. You did not understand me as expressing any purpose not to aid the allies in the way we are doing?

Mr. Arnold: Oh, no.

Senator Page: And you do not want to have the help that we are giving them withdrawn?

Mr. Arnold: Absolutely no; not at all. The question that comes to me in this case, Senator Owen, is this: In what way is Mr. Crosby only an individual? Does he not represent the Federal Reserve Board of the Treasury Department?

The Chairman: Mr. Crosby, as an individual, has his office down in the Treasury Department in room No. 10, we will say, where he has a stenographer. He is going to leave there the end of this week and go to Spain, and that office will probably be closed. Mr. Crosby will be on the trains and on the steamships, and he will probably go to London and then to Paris. Eventually he will land somewhere in Europe and get his trunk unpacked and look around to get an office or some place in which to transact his business. Mr. Crosby is not situated to function perfectly for the purpose of running an international bank or manage its proposed functions. The Equitable Trust Company of New York has 150 employes in its foreign branch. Even the interior banks - I suppose you have a considerable number in your foreign department? - - -

The Chairman: I thought we ought to have an establishment that would function. You can not conduct international business through an able man traveling about the world, no matter how capable he is - and Mr. Crosby is one of the very ablest men we have in the service; he is a splendid man and he has a splendid point of view in this matter. I understand perfectly well his problem. He is doing his utmost, and I think he is doing as much as any human being could. But you can not run the First National Bank with one man. The first thing you do, if you are managing a bank of that kind, is to find men capable of transacting the business that is to be done. That is where you function as a Vice President and Manager. I think the same thing is true with regard to the mechanism of a Federal Reserve foreign bank. If you want that to function you have got to have an organization with a set of officers and set of books, and individuals to whom the necessary work can be distributed.

Mr. Arnold: May I ask what his credentials are? Does he go without credentials from anyone?

The Chairman: No, he goes as the representative of the Treasury Department.

Mr. Arnold: Then he has the Treasury Department back of him, has he not?

The Chairman: Yes; and you might have \$500,000,000 behind you, and you might have power to function as the First National Bank, and you would not get anywhere without employees fitted to do the work.

Mr. Arnold: But if I go with credentials from the First National Bank, I do not go without an organization back of me.

The Chairman: If you have no foreign department properly manned, you would have to build one if you wanted to do any international business.

The Senator knows that Mr. Crosby is not the only man in the Treasury who is available for these functions. He knows that he has with him in Europe quite a number of very able gentlemen who assist him in his negotiations, and furthermore, he knows that when Mr. Crosby leaves his room in the Treasury is not closed, but he knows that there are Assistant Secretaries, and quite a staff of able experts who assist them, and who give these negotiations continuous attention. The Senator has met almost all of these men; they have taken him into their confidence, and it appears to me inexcusable that Senator Owen should make a statement of this sort, which to those who are not familiar with the organization of the Treasury must be absolutely misleading and which, if accepted, is detrimental to the prestige and best interests of the United States. Moreover, Mr. Crosby is not looking around for quarters. The French and British Governments have vied with each other in placing at his disposal the most handsome quarters in well-known historic

buildings which have been described in the American press.

It would appear from the hearing that the Senator thinks the main service to be rendered by a Federal Reserve branch would consist in its power, by paying high rates of interest on deposits, to attract untold millions in and from foreign countries. He has been assured by many witnesses, however, that that is a misconception.

There is available only a limited amount of deposits that these foreign banks could attract in foreign countries. The Federal Foreign Exchange Bank branches would hardly be expected to deal with the public direct in foreign countries, where in the United States it is proposed to restrict them in their transactions to dealing with banks. Moreover, one cannot secure deposits in competition with local banks without offering the credit facilities which these local banks offer. In order to successfully compete with these local banks it would be necessary, therefore, for the Federal Reserve branches to go head-over-heels into the commercial credit business in these foreign countries.

If, on the other hand, it were the plan that these Federal branches should borrow only from banks, it is evident that they could not get very far, because in order to do that they would have to offer rates of interest which would be higher than those at which the local banks can buy commercial paper in these countries, and even then general banking pru-

dence would dictate the wisdom of limiting one's risks. The amount that each bank would want to loan this new-comer - the Federal Reserve or Foreign Exchange branch - would, therefore, be^a restricted one, no matter how good its credit. One would also have to consider that no local bank would want to tie up a substantial portion of its funds for any very long term. All of these local foreign banks are deposit banks and must remain liquid. They cannot afford to tie up a large percentage of their deposits in one year or two year time deposits to be made with the Federal branch. If, on the other hand, these Federal branches would accept money at high rates of interest for short terms, they would be in a dangerous position, because if these deposits would be withdrawn, the Federal banks would be faced with the hopeless problem of covering exchange, which, in these conditions could only be done by shipments of gold. That, however, is the very condition that Federal banks would have to avoid, particularly if these transactions are to be carried on to the extent of hundreds of millions of dollars - the minimum necessary in order to cope with the present exchange requirements. It is evident, therefore, that the Federal Reserve banks, by putting into effect the plan Senator Owen has in mind, would place themselves in a very dangerous position, a position

in which as trustees of the reserve money of the United States, they have no right whatever to place themselves and one which the Chairman of the Banking and Currency Committee of the Senate, and one of the authors of the Federal Reserve Act, should be the last man to wish them to be in.

But, considering the matter purely from the point of view of Senator Owen's Federal Reserve Foreign Exchange bank, it is evident that its branches for the same reasons could not be relied upon to bring about the results desired by him. Unfortunately Senator Owen is very vague about what he really has in mind. At times he appears to concede to witnesses that it is not intended that branches should be opened, but that only agencies should be established - that is to say, foreign banking connections. If that be the case, these foreign banking connections could render the same service for the existing American banks without establishing the new Government Agency.

What has been stated above with respect to deposits, and sales of securities, may be said with equal force with regard to acceptance credits. From time to time Allied countries have secured such credits in the United States and in neutral countries. But invariably a large group of banks or business concerns drew on a large group of banks and bankers. The credits were negotiated by special emissaries, at times under the auspices of Governments or Central banks, but always the plan was pursued of combining all the available banking powers. I do not know of a single instance where a Central bank drew or accepted itself, or tried to substitute its own borrowing power for that of the combined banks of the country.

As Senator Owen gets further along in his hearing and acquires further knowledge, he appears to be somewhat shifting his ground. Instead of insisting that we borrow enough in order to put back to par the dollar in all countries, he appears to be modifying this first demand to the practicable proposition of loans sufficient f.i., to pay for Pershing's purchases in Spain leaving, however, the market quotation of dollar exchange at a discount for all other transactions. That, however, is a very different point of view from the one expressed in the original fulmination, which went so far as to state that unless we put the dollar back to par everywhere we would court the danger of a gold premium at home; nothing of the sort has happened in England where similar exchange conditions have existed for years, nor is there the slightest reason why it should occur with us, unless, indeed, needless alarm be stirred up by rash statements and agitations such as the Senator makes himself guilty of.

The further the hearing proceeds, the more frequently does the Senator concentrate upon the idea that the best means of curing the present situation would appear to be a high rate

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of interest to be paid by the Federal Foreign Exchange bank on foreign dollar balances, these foreign balances serving as a temporary means with which to pay our excess foreign purchases.

He indicates that he does not object to seeing these banks pay six or seven percent, provided foreign balances could be lured into the United States in that manner. He conceded that this will probably mean a loss, but his argument is that as the Foreign Exchange Bank will be practically a Government bank, to incur this loss would be money well spent in the national interest. We would have no fault to find with such losses incurred by the Government if that would remedy the situation; but what would be the consequence if we should succeed in inducing one or two billions of dollars to be deposited with us in this manner? In the end it would prove to be a decided detriment to the United States. If peace were established today the United States would find itself in the strongest possible financial position. We could lift the gold embargo sooner than any other country in the world, as soon indeed as our tonnage would be free to carry our raw materials to the various countries of the world so badly in need of them. If, however, one or two billions of dollars of foreign balances payable in gold would become immediately due and payable upon our lifting the gold embargo, that would be too heavy a burden for us to face - particularly in view of the fact that at the time when this happy moment will come, our note issue and deposit obligations are likely to have vastly increased and our gold reserve percentage may have shrunk materially. We would then not be in position to

complacently face the withdrawal of a billion dollars worth of gold, and we must not overlook the fact that in that case we would surrender the control of one billion dollars or more in gold to neutral countries which could use it for the purpose of making loans to any power in the world (now enemy, neutral or ally) or of buying goods wherever they please and pay for them with that gold, or indeed the neutrals may ship the gold home and deposit it as a gold reserve against the circulation issued, pending the war, against gold balances kept with the Federal Reserve banks, or in other countries

Neutral balances in the United States, at present, amount to approximately \$. If the Government wished to see these balances increased in the manner desired by Senator Owen, it could ask the private banks and the Federal Reserve banks, to allow, let us say, $4\frac{1}{2}\%$ to 5% ^{interest} on these neutral balances, the Treasury agreeing to sell to the banks an equivalent in certificates of indebtedness bearing interests at $5\frac{1}{2}\%$ to 6% as long as these deposits remained. Larger sums would be attracted in that manner than by the operations of one single bank; the Federal Reserve Foreign Bank.

Conditions at present are such that we are forced to temporize in a great many cases; at times shipping gold and at times contracting for short loans. The ideal way, however, for us to solve our problem is to regulate our trade with the neutral countries in a more systematic way so as to free as soon as possible the necessary tonnage and

goods in order to furnish these neutral countries with the articles they would be glad to buy from us and our allies. In addition we should aim to adjust our balances either by selling our own bonds, with a maturity of not less than three years, and in doing that it would pay us to be very liberal and not hesitate to pay the generous rates of interest that are required in order to appeal to the investor in foreign markets, or we should induce these neutral countries to buy back their own securities, of which most of them still have vast amounts outstanding in allied countries.

The discount of the dollar, sterling and franc is as much of a disturbing factor for these neutral countries as it is for us. Indeed for some of them it involves much more serious hardships than it does for us. Imagine the pressure and anxiety to which our own country was subjected when at the beginning of the war, we found ourselves unable to ship and sell our cotton crop. The South American and Central American countries which have to sell their meat, wheat, copper, fruit, wool, coffee, skins or nitrates, are seriously embarrassed by their inability to sell their goods ^{due} to the heavy discount of allied exchanges. It is to their interests as much as ours to find ways and means to overcome this obstruction to their trade by establishing credits until such time as we shall be able to ship them the required quantities of goods or gold.

The best men available should be sent to these neutral

o countries both for the purposes of studying what goods they require now and may require after the war, of devising ways and means of making these goods available for export purposes by curtailing home consumption and of negotiating allied loans in those countries, or of re-selling neutral securities now held in allied countries.

That, however, is now a function which can be exercised by the Federal Reserve Board or the Federal Reserve banks, or a Federal Foreign Exchange bank. It is a problem which must be handled by the Governments direct, not by a semi-official institutions with limited powers. The Government alone has the power to restrict or to encourage importation or exportation, to curtail home consumption, to contract for foreign loans and to commandeer neutral securities. The Government alone can overcome such difficulties as exist between the allied powers themselves in adjusting and subordinating their several national interests for the purpose of establishing a common and comprehensive plan of operation, without which this complex problem cannot be solved.

while he says "The F.R. banks have utterly failed to meet the services ex-
pected
While Senator Owen blames the Federal Reserve Board, he

is well aware of the fact that the Federal Reserve Board cannot be held responsible for conditions which are not under its control. Congress has given the power to contract for loans and to regulate gold exports and control foreign exchanges to the President and the latter has placed these duties in the hands of the Secretary of the Treasury, some of these functions being exercised by the Federal Reserve Board and

the Federal Reserve banks subject to the approval of the Secretary of the Treasury.

Officials of the Treasury have continuously devoted their time and energy to this question. They have frequently conferred with the Board in these matters and the Board, as well as officers of the Federal Reserve banks, have been in frequent conferences with officials of the Treasury. Numerous memoranda have been prepared and submitted by individual members of the Board containing recommendations upon the subject.

No matter how busy the members of the Board are and no matter how large the tasks that the Federal Reserve banks have undertaken at this time, just as much as they have been willing to tackle the additional burdens imposed upon them by the War Finance Corporation, the Capital Issues Committee, by the many duties placed upon them by the Treasury, such as control of gold and silver imports, the supervision of foreign exchange transactions, the placing of certificates of indebtedness and Liberty Loan bonds, payment of coupons for the Government and numerous other activities, just as much would they have been willing to create an additional organization in order to actively engage in foreign exchange transactions, if that had offered any chance of bringing relief.

It is not my intention to thoroughly analyze Senator Owen's bill as it stands. The Senator admits himself that

it has not been carefully drawn. Suffice it to say that it is impossible to conceive what good purpose could be served by practically duplicating the Federal Reserve System by giving another set of men power to buy domestic and foreign paper and to issue Federal Reserve notes against bankers' acceptances or foreign bills. It is difficult enough to coordinate twelve banks into one system. How it would be possible to pursue any kind of an effective discount policy with two systems issuing notes and doing a discount business in competition with one another is, of course, entirely inconceivable. The Senator's reply would be that the Federal Reserve Board would control the new Federal Reserve Exchange bank. If that is the case, he loads the members of the Board with a more complicated task than if the control remained with the Federal Reserve banks. But how can we reconcile with this plan of putting the new bank under the Board's control, the Senator's arguments that this new bank would have to be organized because the Board is overburdened and therefore could not undertake the task? It is more than likely, however, that what the Senator has in mind is some sort of a divided control. He stated during the hearing his view that banking is so simple a matter that every business man fully understands it, while bankers do not have a sufficient grasp of the intricacies and requirements of business. That is why he urges that these 9 Directors of the Federal Reserve foreign bank to be appointed by the

President are to be merchants, one of whom is to be Governor, etc. While such accommodations as may safely and reasonably be made in relation to foreign banking to Federal Reserve banks, member banks and to all other banks and bankers of the country, are to be made subject to the orders of the Federal Reserve Board, the power to issue notes, to deal in gold, foreign exchanges, etc., could be carried on without the Board's control. It is worth while noting that the new bank, subject to the regulation of the Board, could buy commercial single name notes without the endorsement of member banks, that the law would, therefore, give it larger powers than at present enjoyed by the Federal Reserve banks. Anybody can foresee the hopeless confusion that might ensue under this plan.

I am frank to admit, however, after reading the testimony that I cannot tell exactly what Senator Owen really intends this new Federal Reserve Exchange Bank to do. At times he talks about its investing in foreign exchange, and then again for days he talks about "international bills", indicating that he is dealing with dollar bills, that is American bankers' acceptances rather than foreign exchange. His elasticity of expression makes it easy, of course, to please the witnesses and to get their support. Some men who operate largely in foreign exchange, like, for instance, Mr. Max May, are enthusiastic in the thought that this new Federal Reserve Foreign Exchange Bank will be free, or, as

he hopes, may be forced, to buy heavily foreign bills in order to issue Federal Reserve notes against them. It would enable those concerns that from time to time are large investors in foreign exchange - and we may just as well admit it, some of them are large speculators in foreign exchange - in case of need to unload their holdings upon the Federal Reserve Foreign Exchange bank. But how can we reconcile such a plan with Senator Owens' statement that the Federal Reserve Foreign Exchange bank would be an instrumentality with which to establish for international bills, that is to say dollar acceptances drawn in foreign countries, a low discount rate which is to effectively compete with the British discount rate of $3\frac{1}{2}\%$.

If the Foreign Exchange bank should become a heavy investor in foreign exchange it would mean that to that extent it would become a factor in further reducing the British discount rate, or the discount rate of all other countries whose bills we would be buying. If we were going to issue notes liberally against sterling bills, we should indeed do our utmost in adding to the popularity of British bills in the world markets. What better could happen to the sterling bills than that we should freely issue Federal Reserve notes against them, thereby creating a second "Lombard Street" in New York for the purpose of popularizing British bills and securing for them the lowest possible discount rate in world's markets. It is incredible that a gentleman

of Mr. May's experience should give such advice - (pages 61 to 64 of the hearing). It is not astonishing, however, when taken in connection with his other statement that the mere fact that a Federal Reserve bank or the proposed Federal Reserve Foreign Exchange Bank would establish a branch in Spain or would issue a statement to the effect that it intended to put the dollar back to par in that country, would act as such a gigantic bluff that pesetas would at once begin to tumble in a similar manner that Italian exchange rose ever since the United States and England announced their plans to sustain it. The difference between the two is obvious. Italian exchange was selling at a discount in the United States, and the reestablishment of Italian exchange, therefore, depended upon our willingness and ability to buy. If we are willing to buy an unlimited amount by placing an unlimited amount of credit at the disposal of the Italian Government, Italian exchange can be re-established at once (even though to the extent that we are re-establishing Italian exchange we are giving increased impetus to the forces that work towards the depreciation of the dollar in other countries). But in the case of pesetas, where we cannot re-establish the dollar by buying pesetas, - which are scarce in the United States and which do not sell at a discount but at a premium, - and where the gold parity may only be re-established by the willingness of the Spaniard to buy dollars or to make loans to us, it is nothing but

foolish bravado to make such a statement.

No matter how boldly we profess that we are going to put the dollar back to par in Spain, the peseta will not go down in New York unless we can borrow in Spain or arrange for the shipment of a sufficient amount of goods or gold.

The Senator, apparently, is much taken with this idea of the "sentimental effect" of such a bluff, because he repeatedly reverts to it in "examining" subsequent witnesses.

The Senator furthermore claims that the Bank of England, the Banque de France and the Reichsbank have been helping their business men in foreign countries by opening credit facilities. Nothing of the kind is the case. None of these central banks have agencies in neutral countries and their exchanges sell at a heavier discount than our's. The fact of the matter is that England, France and Germany have each about two or three of their large private banks established in most of these foreign countries. To illustrate, in South America, England has the London and River Plate Bank, the London and Brazilian Bank and the British Bank of South America; and in the Orient the Chartered Bank of India, Australia & China, and the Hongkong and Shanghai Banking Corporation.

The German banks, before the outbreak of the war, had one bank in China - the German-Asiatic Bank - which was the joint property of practically all the important German stock banks and private banking firms. There are two German banks in South America, representing each a different German banking group. The French have combined in the establishment of one or two French banks in South America and one in the Orient;

The Credit Lyonnais and the Comptoir National de Paris have some branches in foreign countries. All that the Bank of England, the Banque de France or the Reichbank in normal times are doing for these foreign banks is that they provide a stable exchange rate by their willingness to ship gold, and a stable discount rate due to the central banks providing a regular market for the acceptances of these foreign banks. Their acceptances are freely bought, therefore, in foreign countries. These are the two main functions to be exercised by the Federal Reserve System in connection with foreign banking, and in this respect the Federal Reserve System has done all in its power to facilitate the development of foreign banking. Indeed, what American banks have done during the short period that they have been permitted to operate in foreign countries is nothing but marvelous. The American bankers acceptance during the short period that it exists, has created for itself an important position in the world markets.

If we will be able to protect our present gold position and if we are careful to avoid any steps that may weaken the strength of our present strategic position, the United States will be the strongest power in the world, so far as concerns its ability of maintaining its gold parities when once peace

is established. That ability of being the first to let down the bars and to let gold go freely wherever it may be due is bound to give us a leading position in the world markets, no matter how low temporarily the dollar may drop in foreign countries, together with the sterling and franc. And let us bear in mind that ^{during the "after-the-war period"} the country that is strongest in gold and can best afford to lose gold is likely to enjoy the lowest discount rate for acceptances.

The Federal Reserve Board has published in its August number some facts about the growth of American banking in foreign countries. We have, today, in East Asia and Central and South America, North American banks which we can match against the British, French or German banks. In fairness to the American banker it ought to be stated that it is not his fault if he is so late in the field; for until the passage of the Federal Reserve Act, it was Congress that denied National banks the power to go into foreign countries. Until that law was put upon the statute book, American national banks had no right to accept, nor was there any possibility of creating a discount market assuring for American acceptances the necessary world prestige. Nor can Senator Owen claim, -as he does whenever he deals with witnesses opposing his plan for a Federal Reserve foreign bank- that it was Congress that

forced upon unwilling bankers these reforms that now save the country. The underlying thoughts, viz; the concentration of reserves, the creation of a discount market and an elastic note issue based upon acceptances and commercial paper, were developed and urged by bankers of the United States and adopted in Senator Aldrich's National Reserve Association plan long before Senator Owen surrendered to them. I well remember that, when I was first invited to meet Senator Owen in 1911, at the time when the draft of the Federal Reserve Act was in course of preparation by Mr. Glass' committee, he was very much interested in having me explain to him fully the elementary features of bankers acceptances, rediscounts, discount markets, etc., which at that time I found were topics still fairly novel to him.

It may be interesting to print here side by side the respective passages of the Aldrich plan and the Federal Reserve Act:

(next page)

1911ALDRICH PLAN

Section 31: National banks are hereby authorized to accept drafts or bills of exchange drawn upon them, having not more than four months to run, properly secured, and arising out of commercial transactions as hereinbefore defined. The amount of such acceptances outstanding shall not exceed one half the capital and surplus of the accepting bank, and shall be subject to the restrictions of section fifty two hundred of the Revised Statutes.

Section 32: The National Reserve Association may, whenever its own condition and the general financial conditions warrant such intendment, purchase from a subscribing bank acceptances of banks or acceptors of unqueationed financial responsibility arising out of commercial transactions as hereinbefore defined. Such acceptances must have not exceeding ninety days to run, and must be of a character generally known in the market as prime bills. Such acceptances shall bear the indorsement of the subscribing bank selling the same, which indorsement must be other than that of the acceptor.

1913FEDERAL RESERVE ACT

Any member bank may accept drafts or bills of exchange drawn upon it having not more than six months sight to run, exclusive of days of grace, which grows out of transactions involving the importation or exportation of goods, or which grow out of transactions involving the domestic shipment of goods provided shipping documents conveying or securing title are attached at the time of acceptance by a warehouse receipt or other such document conveying or securing title covering readily marketable staples. No member bank shall accept, whether in a foreign or domestic transaction, for any one person, company, firm or corporation to an amount equal at any time in the aggregate to more than ten percentum of its paid up and unimpaired capital stock and surplus unless the bank is secured either by attached documents or by some other actual security growing out of the same transaction as the acceptance and no bank shall accept such bills to an amount equal at any time in the aggregate to more than one half of its paid up and unimpaired capital stock and surplus.

Section 34. The National Reserve Association shall have power both at home and abroad, to deal in gold coin or bullion, to make loans thereon, and to contract for loans of gold coin or bullion, giving therefor, when necessary, acceptable security, including the hypothecation of any of its holdings of United States bonds.

Section 35. The National Reserve Association shall have power to purchase from its subscribing banks and to sell, with or without its indorsement, checks or bills of exchange, arising out of commercial transactions as hereinbefore defined payable in such foreign countries as the Board of Directors of the National Reserve Assn. may determine. These bills of exchange must have not exceeding ninety days to run, and must bear the signature of two or more responsible parties, of which the last one shall be that of a subscribing bank.

Section 36. The National Reserve Association shall have power to open and maintain banking accounts in foreign countries and to establish agencies in foreign countries for the purpose of purchasing, selling and collecting foreign bills of exchange, and it shall have authority to buy and sell, with or without its indorsement, through such correspon-

p.115. (a) To deal in gold coin and bullion at home or abroad, to make loans thereon, exchange Federal Reserve notes for gold, gold coin, or gold certificates, and to contract for loans of gold coin or bullion, giving therefor, when necessary, acceptable security, including the hypothecation of United States bonds or other securities which Federal Reserve banks are authorized to hold

(c) To purchase from member banks and to sell, with or without its indorsement, bills of exchange arising out of commercial transactions, as hereinbefore defined.

p.119 (e) To establish accounts with other Federal reserve banks for exchange purposes and, with the consent of the Federal Reserve Board, to open and maintain accounts in foreign countries, appoint correspondents and establish agencies in such countries wherever it may deem best for the purpose of purchasing, selling and col-

(Sec. 38 cont'd)
dents or agencies, checks
or prime foreign bills of
exchange arising out of
commercial transactions,
which have not exceeding
ninety days to run, and
which bear the signature
of two or more responsible
parties.

p. 119 (e) continued.
lecting bills of exchange,
and to buy and sell with
or without its indorsement,
through such correspondents
or agencies, bills of ex-
change arising out of actual
commercial transactions
which have not more than
ninety days to run, ex-
clusive of days of grace,
and which bear the signature
of two or more responsible
parties, and with the con-
sent of the Federal Reserve
Board to open and maintain
banking accounts for such
foreign correspondents or
agencies.

In this connection, however, it may not be amiss to refer to the suggestions made by myself in a plan published in November 1910, entitled "A United Reserve Bank of the United States", in which, amongst others, the following functions were advocated:

(4) To buy, at a discount rate to be published from time to time, paper having no more than ninety days to run, drawn by a commercial firm on, and accepted by, a bank trust company or banker, and indorsed by a bank, trust company or banker. One of these signatures should be that of a member of the banking association. Limits as to amounts of acceptances admissible from time to time for discount with the United Reserve Bank should be fixed by the central board.

(5) To buy bills on England, France, Germany (and such other countries as may be decided upon), such bills to have a maximum maturity of ninety days, to bear one commercial signature, to be drawn on and accepted by a well known foreign banking house and indorsed by a member of a banking association or a banker in good standing. The United Reserve Bank should have power to resell all bills that it might buy and to do all things necessary for their collection.

(6) To deal in bullion, and to contract for advances of bullion, giving security therefor and paying interest on such advances.

In this address, there also occurs a paragraph with reference to bankers acceptances, reading as follows:

"There remains to be established one more rate, the private discount rate, at which the United Reserve Bank would take sixty or ninety day bills, drawn by commercial firms on, and accepted by a bank, trust company or private banker (as under 4). The private discount rate of the United Reserve Bank, would be kept very low in the beginning, for the purpose of encouraging shippers at home and abroad to use the credit of American banks, where now they use foreign credit. Shipments of coffee from Brazil to New York and of cotton from Galveston to Boston are now usually financed by long drafts on Europe. Under this plan such banking transactions will be turned over to the United States! Bills will

be drawn on American banks and bankers, instead of on London, Paris or Berlin, and instead of being financed by others, we may gradually become the financiers of others. Not only will this increase our trade, but most important of all, once we establish the modern banking bill in the United States, its use will grow and our banks will reap the tremendous advantage of being able to invest their deposit money in assets upon which they can quickly realize at home and abroad. As the use of this modern paper increases, so will the financial safety of the banks and the business community".

And one paragraph on the purchase of foreign bills:

"There remains to be considered one more field of activity for the United Reserve Bank; that is, its privilege of buying foreign bills having not more than ninety days to run. This power is necessary for obvious reasons. It would afford the United Reserve Bank an opportunity to employ its idle funds in times when the management should decide upon a policy of withdrawing funds for use in the United States, and it would enable the bank to accumulate an interest-bearing gold reserve; foreign bills are available for the purpose of drawing gold from foreign countries, and they also serve as a means for warding off withdrawals of gold."

In adding here these quotations, I am not moved by any desire to establish a claim of priority of authorship (as to that, public records will tell their own story), but I do cite them simply in order to deprive of its force the argument, -used over and over again by Senator Owen in order to silence or weaken the weight of the testimony of witnesses unfavorable to his plan- that the bankers are stupid and unfit of taking a wide view of the problems of the country, and that Congress, against the will of the bankers, had to devise and impose a law which finally proved to be the saving of the country. It was bankers that suggested the underlying

thoughts of the present reserve system. A vast majority of bankers declared themselves in favor of the principles which formed the basis of the Aldrich plan, and the Federal Reserve System substantially adopted these principles. It changed its form of application. In its earlier form the Federal Reserve Act contained some provisions which created apprehension in the minds of the banking community with respect to certain features in the plan and mainly the fear that the desire of decentralizing might go too far to permit effective operation. The power vested in the Federal Reserve Board was designed to counteract this decentralization. If the law has now proven to be a great benefit to the country, I believe we may say that some part of the credit is due to the manner in which it has been administered, and enlarged by many subsequent amendments prepared by the Board. Without these the system would have proven defective and unable to meet the present situation in the satisfactory way now fully appreciated by the entire country.

The contributions made by those enacting the Federal Reserve Act are many, and their work on the whole was most creditable and beneficial. The fact that the act could be passed at all was one of the greatest achievements of political strategy and sagacity. It was a formidable task, brilliantly accomplished, but it is unfair for the Senator to deny any standing in court to the criticisms of bankers for the mere

reason that at some time they were opposed to certain features of the Federal Reserve Act.

The plan for the National Reserve Association, submitted by the Monetary Commission in 1911 contained in section 49, the following provision:

"49. The organization of banks to conduct business in foreign countries and in the dependencies of the United States shall be authorized. The stock of such banks may be held by national banks, but the aggregate of such stock held by any one bank shall not exceed 20 percent of the capital of that bank.

The bank so organized may have an office in the United States, but shall not receive any deposits in the United States nor compete with national banks for domestic business being done in foreign countries or in the dependencies of the United States".

Against the protests of the banks, this clause was omitted from the Federal Reserve Act, and the Federal Reserve Board never ceased urging the granting of this power, because instead of giving a monopoly of the foreign branch operation to a few very strong banks, it would enable many small banks "to club together" in going into foreign loans. An amendment to the F. R. Act was finally secured in 1917 giving substantially this power to national banks, and the granting of this power has been availed of in the case of the Mercantile Bank of the Americas, the American Foreign Trade Bank (whose stock is now held by more than 40 national banks) and others now in organization. It is apparent, therefore, that the bankers of this country foresaw the necessity of providing for the trade in foreign countries as early as 1910 and 1911, while this power was actually granted only one year ago by a Senate whose financial legislation was under the control of a Committee of which Senator Owen himself was the Chairman. In that

connection, it may be stated that for years the Federal Reserve Board has urged both houses to grant a federal charter to banks organized for the purpose of operating in foreign countries. Such amendment has been prepared and submitted in detail on several occasions, but Congress, so far, has not found it possible to pass the necessary legislation, so that, at present, state charters have to be sought by banks organizing for the purpose of operating in foreign countries, while the prestige of a federal charter is still being denied to them.

It is not fair, therefore, to say that the Federal Reserve Board has been so busy that it has not been able to devote any time to these questions. It is a fact that the Board has urged over and over again the enlargement of powers to be granted national banks in order to better establish dollar acceptances and American credits in foreign countries. I, myself, while in South America, made the rounds with banks of all nations established in Rio de Janeiro and Buenos Ayres, Uruguay and Chile, urging the banks in those countries to avail themselves of American acceptances. Upon my return, I made a full report to the Board and addressed commercial bodies and bankers for the purpose of pointing out to them the opportunity and the obligation which was theirs in using American acceptance credits, and I prevailed upon the Senate to enlarge acceptance powers of member banks so as to authorize them to

accept for certain transactions designed to furnish dollar exchange in foreign countries. Is it proper, therefore, for the Chairman of the Banking and Currency Committee to create a feeling in the Senate and in the country as if the Board had been remiss in its duties, and as if he alone, as Chairman of the Banking and Currency Committee of the Senate, was standing on sentinel duty in order to protect the financial interests of the United States. He says; "I feel we are charged in this Committee with a most serious responsibility. Who is there to attend to this if the Committee on Banking and Currency does not give it attention?" The Federal Reserve Board could well ask whether the Chairman of the Banking and Currency Committee did always give his most careful attention to amendments urged by the Board?

Three and one half years only, and years of war at that, have been open for the establishment of foreign banks of the United States. There is no other country that during so short a period, has made such strides as the United States.

Senator Owen criticizes that the British acceptance rate is lower than the rates for dollar acceptances. It must be freely admitted that that is an anomaly, but one that is to be cured by our ally rather than by us.

In order to finance ourselves and our allies, we have to raise unprecedented sums. It is unreasonable to believe that we could carry out our present program of raising approximately

\$750,000,000. every two weeks by the sale of certificates of indebtedness at a rate lower than the one now offered by the United States, that is $4\frac{1}{2}\%$. If we should lower our rate, we would run the risk of losing the cooperation of the thousands of small banks, all of whom must cooperate in order to make our financial program a success. When the Government borrows for 90 days at $4\frac{1}{2}\%$, our acceptances cannot sell at a rate much lower than that, or the banks would cease to invest in these acceptances, and the burden of carrying these acceptances would be thrown entirely upon the Federal Reserve banks.

Federal Reserve banks' investments, on the other hand, have risen since the war began from \$350,000,000. to approximately \$2,000,000,000., and it is in the interest of the United States that these investments do not increase any faster than they have, because more rapid growth means a corresponding reduction in our reserve power and a correspondingly rapid expansion of credit, with the incidental inflation. On the other hand, doubt has been expressed by many as to whether it appears warranted that, while we are financing England to so large an extent, her discount rates should be $3\frac{1}{2}\%$ against ours at $4\frac{1}{2}\%$, at a time when England borrows in the United States on its treasury notes at a rate in excess of 6% and pays for American bank balances

interests at the rate of $4\frac{1}{2}\%$. It must be admitted, however, that England makes this effort of keeping her discount rate so low primarily for the purpose of placing her treasury bills at a correspondingly moderate rate. Be that as it may, it can readily be seen from the above that it would hardly be fair to blame the Federal Reserve Board for a condition which is plainly beyond its control and one which can only be adjusted by an understanding between the two governments concerned. (See footnote)

Senator Owen appears to think that his Federal Reserve foreign bank would be capable of remedying this anomaly. It was brought out during the hearing that inasmuch as the Federal Reserve foreign bank could hardly count upon large deposits from ^{American} customers and banks, it would be, in fact, restricted in its operations to the amount paid in by the Government. Some witness suggested, therefore, that it might issue its own bonds and secure larger funds thereby. The Senator evidently was much impressed by this foolish suggestion

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Note: It has been suggested that British banks might well increase their acceptance commissions so as to at least equalize the cost of British and American acceptance credits. English financial writers appear to think that instead of the English banks making some adjustment of this sort, the United States might reduce money rates by artificial means and thereby create the basis for cheaper borrowing by the United States government. When we bear in mind that, however, in order to raise the amounts necessary to finance ourselves and our allies, we require

(footnote continued) all the savings of our people, and when we consider that, in order to be able to buy the necessities of life, these people have to pay twice the prices they used to, we perceive why it is necessary not to decrease the returns from their savings, but rather to increase the same. If we issue more bonds than the saving class would be able to invest in at an unduly low interest return, the consequence must be heavy investments in these bonds, and loans on bonds, by banks, which would lead to a further decrease of bank reserves and to increased inflation. It has also been stated that the volume of British acceptances has been so materially reduced -while ours has increased-that this scarcity has created a natural demand and lower rate offered by investing British banks.

because from then on he reverts to it, suggesting it repeatedly to subsequent witnesses. In this connection the Senator expresses the conclusion that the Federal Reserve foreign bank would be able to attract, as he puts it, all the member banks' liquid cheap 3% money, and he has a vision of seeing all of this 3% money invested by the banks in these bonds. How are these bonds to be secured? he is asked. "By the bills that the Federal Reserve foreign bank will buy". Now suppose that this foreign exchange bank would sell five hundred million dollars of bonds. These bonds would have to be sold in competition with the Government to the member banks. Could the member banks afford to invest their "3% liquid money" in these bonds? Why should they? If these banks have any 3% money, they have it only for the reason that they want funds which they can draw against at any time if their own demands require it. These foreign exchange bonds would constitute nothing else but a lock up of bank funds, just as much

as investments in any other bonds. It would be much safer for these banks to invest their funds in 90-day certificates of indebtedness than in these bonds, and I fail to see how Senator Owen, with his magic wand, is going to be able to find and attract idle 3% money for investment in these bonds in any different way than the Government when it offers its own securities.

But, suppose this plan were carried into effect, the condition of the new foreign exchange bank would then be as follows:

It would permit 6% on foreign balances, it would sell three year bonds, let us say, on a 5% or 6% basis, and would invest the proceeds of these deposits or bonds in American acceptances or British sterling bills at 3½%. In other words, we would organize a bank which would start out with the object of losing money.

It sounds almost naive to suggest that the stock of this bank should first be offered to the public for investment. Indeed a law should be passed simultaneously preventing any innocent private investor from subscribing to such stock. The only investor could, of course, be the United

States. If this plan were carried out and if these bonds were sold as the Senator has in mind, we would then have the anomalous condition that the Federal Reserve foreign bank would be in the market buying bankers acceptances at $3\frac{1}{2}\%$, because it is one of Senator Owen's aims to bring the American discount rate down to the British rate - and the consequence, as already mentioned, would be that the Federal Reserve banks and all the private banks of the country would cease to buy acceptances while the acceptance market would be controlled entirely by the Federal Reserve foreign bank. In other words, the Federal Reserve banks would be shorn of one of their most important powers, most vital for the protection of the system. (How the Federal Reserve Board approving for Federal Reserve

banks an acceptance rate of $4\frac{1}{2}\%$ when sitting in control of the Foreign Exchange bank should, approve a rate of $3\frac{1}{2}\%$ is something that I have not been able to fathom.)

It will be noted that the bill, as first drawn, deprives entirely the Federal Reserve banks of the power to invest in foreign exchange and to establish foreign agencies or correspondents. In normal times Federal Reserve banks/should buy foreign bills ^{within conservative limits} of solid gold countries _{At a time when these are low and when funds are} too abundant in the United States.

That would enable the Federal Reserve banks to counteract unhealthy expansion and at the same time provide a safety valve in case exchanges should turn and demands for gold be made by foreign countries. This policy of protection would be taken out of the hands of the Federal Reserve banks and would be turned over to the group of men running the Federal Reserve Foreign Exchange Bank.

It is hard to see how the financial system of the United States would profit by dividing these functions. It would create a system fairly impossible of operation.

It does not appear practicable to go fully into an analysis of the several measures of relief that the Senator suggests at random as capable of solving the difficulties of the problems involved.

If the Federal Reserve Board - whom upon another occasion the Senator has been pleased to term "a subordinate bureau of the Treasury" - had the powers to dictate conditions

to all neutral and allied countries, some of the schemes urged by the Senator could be put into effect. But the Senator is likely to know from his confidential talks with officials in charge that they are wide awake to the emergencies of the case. He cannot ignore that they are day and night struggling with the problem; that his suggestions are not new to these men; that constant efforts are being made on these lines but that only by patient negotiations both with neutrals and allies and moving with the greatest discretion can results be secured. They can be achieved only by mutual voluntary agreements. What good, in these circumstances, can this public agitation do? How can the public interest be served by advertising, and grossly exaggerating, the harm that comes to the United States by the discount of the dollar, instead of showing that the disadvantage of the conditions to be remedied is affecting both parties to the negotiation? Has he found the Treasury or the State Department closed and unwilling to listen to suggestions other than those made through the megaphone of public proceedings? The Senator rushes in "where angels fear to tread", and I do not think that it is to the best interest of the country to follow him in publicly discussing all of his suggestions. As stated before, most of them are not original thoughts. To illustrate, the Senator advocates the establishment of an international gold clearing fund as one of the remedies to deal with the present situation. The Senator says:

"The establishment of a gold fund in Washington by the 12 Federal Reserve banks for adjusting their balances with each other by bookkeeping entries, instead of by actual transfer of gold, has served a great public economy and the same thing can be done with international exchanges by establishing a gold fund in the United States to serve a like purpose."

It may be instructive for the reader to learn that this clearing by book entry was not provided for in the Owen-Glass bill, the Federal Reserve Act, but that it was developed by ^{very} the Federal Reserve Board the Senator wishes to instruct, and upon its recommendation an amendment was passed providing for this machinery, without which the gigantic daily transactions of the Government could not have been carried through without becoming a menace to the banks and the country. It may be of equal interest to note that the international clearing fund, which the Senator ventures to suggest to the Board as a new thought, has been originated two years ago by a member of the Board and a Governor of a Federal Reserve bank. A full plan covering such a project was submitted by the American delegates, of whom I was one, to the International High Commission at the conference at Buenos Ayres in April 1916 and a form of treaty has since been prepared and submitted to South and Central American countries. The main characteristic of these treaties is that they are planned to include so many powers as trustees that if two of them, or even more, went to

war with each other, the rights of the remaining neutral custodians of the fund would have to be respected. Without such treaties, international gold clearance funds, in my opinion, could not be considered safe. Efforts are constantly being made to proceed on these lines. (print ----(See Footnote)---- from memo marked on pages 2 and 3). When Senator Owen with the familiar air of assumed authority lays down the law that these international gold clearing funds should be established and that they would render unnecessary "the expense of gold shipments in the future for all countries", he carries coal to Newcastle; but he is spoiling the coal. How safe does he believe our banks would feel if the Federal Reserve banks' gold had been in simple trust with Russia and if it were now in the hands of the bolsheviks? Should we have left unlimited amounts of our gold in now neutral countries in Europe, which, conceivable at least, might have joined the central powers or been overrun by them? While a gold clearing fund, if properly organized and safeguarded, - which is a matter of years of most patient negotiation - may remove the necessity of many gold shipments, it is ~~an over-~~ an overstatement to say, or to expect, that it will render unnecessary all gold shipments. Central banks will never

permit more than a certain percentage of their total gold holdings to remain outside of their own country and moreover not all countries will be safe enough to be considered proper custodians in spite of

NOTE: Abstract from the report of the American group of the International High Commission, urging the establishment of international gold clearing funds.

The Federal Reserve Board had evolved during the preceding year a system of effecting a settlement of debts among the twelve Federal Reserve Banks of the United States by means of a gold settlement fund, and the United States members attempted to evolve a plan by which, in a similar manner, gold settlements could take place between nations without the necessity of moving gold from one country to another, substituting therefor a safe procedure of legal transfer of ownership.

In itself, this problem would not offer any great difficulty. It would mean, as a matter of fact, no more than one bank marking gold for another; that is to say, one bank holding gold for the credit and at the disposal of another bank upon the distinct agreement that the creditor bank may ask for the amount due it in actual gold and not in any other currency or credit. The difficulty of the problem, however, lies in the fact that if this gold fund is to be large enough substantially to avoid the shipment of gold it would have to embrace sums of very large proportions, and inasmuch as these deposits of gold will probably have to be made for account of governments or government banks, which will have to treat this gold held in foreign countries as part of their own gold reserve against which they have an outstanding their own circulation, it is necessary that the title to and the ownership of the gold in foreign countries be placed beyond any possibility of dispute or of seizure. It had of necessity to be considered that in case of interruption of friendly relations between any two nations, the gold belonging to one could not be seized by another, and it was, therefore, felt that the prerequisite of the creation of such a gold fund would have to be international agreements, not only by two, but by several governments which, all together, would constitute themselves the trustees of the fund. Thus, in case of hostilities

between two, the remaining trustees would still act as trustees, whose rights and privileges could not be affected by an interruption of friendly relations between two of the contracting parties.

Not only in the case of abnormal interruptions of ocean transportation, but also in the case of normal conditions might this clearance fund prove to be a very useful instrument. It is no doubt a great waste to pay the freight and insurance on gold which at one period travels one way and which, with the return flow of trade, will have to travel back over the same route that it has come. It is no doubt a great waste that foreign gold that enters foreign countries in this manner must, in a great many cases, be melted down and recoin- ed. Moreover, the loss of interest caused by gold in transit is a very heavy item. This economic waste might be avoided by the creation of the proposed gold clear- ance fund."

binding treaties. To contemplate this clearance plan as insufficiently tangible form to serve in the near future as a basis of Senator Owen's plan of having all foreign exchanges stabilized through Federal Reserve banks, or through the Federal foreign bank, without the necessity of ever shipping gold, is a dream rather than a thought to be seriously considered as apt to offer relief in the present emergency.

We could go on almost indefinitely with our analy- sis of the consequences that would follow the establish- ment of a bank as outlined by the Senator, but I think we have gone far enough in order to show the weakness and impossibilities of the plan. In order to sum it up, we might say that nothing has been shown in the hearing that would prove that the machinery proposed by the

Senator would remedy the obvious defects of the present situation. As long as the war lasts, the remedies must be found and applied by the Government; by the Government using its credits; by the Government directing the use and flow of goods from and into our country; and by the Government sending such men as student or negotiators as may be capable of negotiating loans, placing U. S. Securities, or paving the way for present and future trades. As long as the war lasts, foreign exchange transactions and foreign exchange facilities such as can be provided by any bank now existent or as contemplated by the Senator, cannot remedy the situation, and as soon as peace will be restored, present facilities - those of the Federal Reserve banks and banks of the United States - will prove to be fairly adequate to handle the exchange problem. As soon as we can lift the gold embargo, the exchange question will solve itself. We must, however, avoid to do anything that might delay the possibility of our lifting the gold embargo at the earliest possible moment.

Nothing has been shown to prove that in normal times the banks of the United States do not provide foreign exchange facilities at most modest margins of profit. As a matter of fact it has been generally stated that the normal profits of these transactions are negligible.

Banks that are to assist the future development of our trade in foreign countries must be able to compete with other foreign banks operating in these countries, and for that reason they must be free of all fetters such as are absolutely necessary for a note issuing Government bank. If it is felt that the American banks are not moving rapidly enough in the opening of these foreign avenues of trade or that their charges are excessive, the Government might consider establishing a Government owned bank for the purpose of aiding the foreign trade, such as the Japanese Industrial Bank. In that case, however, such bank should not be a note issuing bank, nor a bank that should undertake the impossible task of acting as a clearing house for all exchange transactions in the United States and all the world, but it should be a bank free from all Government restrictions or functions. It should not issue notes or bonds on any unreasonable basis. It should be plainly a business bank, stated for the benefit of all the people of the United States, and dealing with the people as well as the banks in foreign exchange, opening credits, or in any other legitimate manner.

Whether or not there is any necessity for such a bank is an open question, but if it should be felt that our foreign business needs that additional encouragement by

Governmental banking, if can, to my mind, only be done effectively on these lines.

The Federal Reserve System should remain undisturbed as the careful custodian of the reserves of the country and as a conscientious protector of the gold treasure of the United States. As such, it must not be permitted to go into business ventures, which either involve, undue risks or an undue lock up of funds. Any bank that would be permitted to issue Federal Reserve notes, as Senator Owens proposed for his new bank, would undermine the safety of the whole system if it were permitted to disregard these obvious rules.

POST SCRIPT. I print here under (from page 135 of the Senate's hearing S.3928) a typical statement of Senator Owen's, and in connection therewith, some thoughts that occur to me with reference to the Spanish olive oil question, which formed the starting point of the Senator's interest in the problem of "the discount of the dollar in neutral countries".

"The Chairman. They could do it, but they do not want to do it, evidently, and the Board of Directors appointed by the New York Banks, which are really private concerns, and that bank is measurably controlled by private interests in New York City, and they are not going to do foreign business with the consent of the New York banks doing foreign business"

"The Chairman. We have had the situation during this war of pegging the pound sterling, and the dollar went to discount, and we have seen no tendency in that

direction of relief, because the Board of Directors are representatives of the New York Banks, which are profit-earning concerns charged with the duty of banking for the making of profits and commissions. They are not charged with any public functions. The Federal Reserve Bank System, as it was established, was dovetailed so intimately with the banks and the interests of the banks--"

"The Chairman. I am only speaking of the reasons which led to the inactivity on the part of the directors of the Federal Reserve bank of New York. The Federal Reserve bank of New York has its directors chosen by the banks of New York, and the banks of New York look at the banking business from the standpoint of dividends, and they are quite right about it, because that is what these banks are established for. They are not charged with the duty of protecting the American consumer against paying \$8 per gallon for olive oil, which they are now paying for olive oil. So that I think this bank, acting as a foreign bank, should not be under the control of the New York banks at all."

furthermore

The Senator/charges, - page 129 of the hearing - that The Federal Reserve Board made a misstatement concerning the relative price of oil and cotton in Spain. The statement of the Board, however, is taken from official Spanish quotations; it is absolutely correct and is borne out by a paragraph published by the Department of Commerce Reports of July 1, 1918, on Page 3.

In this connection, it is very interesting to note that since many months the United States has placed an embargo upon the importation of olive oil and that on the other hand, Spain has put an embargo upon the exportation of olive oil. Here we have two countries, one of whom does not wish to sell one of its food products, and the other, considering the importation of this oil against its

interests. Our own reasons in the premises are obvious; first, because we wish to conserve our cargo space for things more essential, second because our trade balance is adverse and we should not import any articles for which there is no absolute need, and for which we may develop substitutes ourselves. As a matter of fact, this healthy process of developing substitutes takes place at this time and our own products are being used in the manufacture of the necessary food oils. Why, then, should the Senator attack the Federal Reserve Board on account of the increase in the price of Spanish olive oil? If it is made difficult for the consumer to secure olive oil, that is the very thing that the United States at this time wishes to bring about. It is the very thing that is essential for the protection of our gold supply. Our consumption of unnecessary articles imported from foreign lands should be curtailed. That is the soundest way of regulating our foreign trade balance and of getting under control our foreign exchanges. But it is just such process that the Senator so seriously objects to. It is difficult to follow the erratic moods of the Senator; on the one hand he delivers orations proclaiming that the whole country is asleep and that only Senator Owens is awake to protect it from serious disaster of the depreciation of the dollar in foreign lands; on the other hand, he insists that the con-

sumer should continue to buy goods in foreign lands at the lowest possible price so that he may continue to import and consume as much as possible, and thereby destroy the very means of regulating foreign exchanges.

Sometimes, one cannot help thinking that Senator Owen has the idea that the Spanish peseta is possessed of feet, with which it walks across the ocean and buys things in the United States, and inversely, as if the dollar were walking physically across the ocean in order to buy things in Spain. As a matter of fact, neither the pesetas nor the dollars walk across the great big "pond", but goods that produce the pesetas in Spain and the dollars in the United States do, and that is what the Board pointed out in its Bulletin of March 1918. It showed, and it cannot be disproved by Senator Owen's say-so, that while oil had no doubt gone up very materially in the United States, and that while pesetas had gone up at the same time, the price for cotton had risen in Spain and that a bale of cotton in Spain was buying ^{gallons} ~~57/100~~ more olive oil in Barcelona, Spain, in November 1917 than it would in June 1914, before the rise in pesetas began. It is true that with embargoes and restricted transportation, the rarity value in both cases is an important contributing factor. The increase in price of oil in the United States, therefore, does not accrue entirely to the benefit of the oil producer in Spain, -

would advise members, or secretaries of members, about the next steps to be taken by Senator Owen, and showed himself always fully informed. The arguments used by the Senator often could be clearly traced to this person, as their author, and there are reasons to suspect that even an elaborate plan, which the Senator submitted to the Board for the purpose of establishing an "Interallied Foreign Exchange Bank" was manufactured in this speculator's office. The correspondence with which he importuned the Board and foreign embassies in Washington showed this man to be a shrewd perverter of facts. He was proved to be a reckless speculator, whose transactions threatened to bring serious losses to banks granting him credits, and it was not surprising for the Board finally to discover that this expert adviser of the Senator, and unselfish protector of the dollar exchange, had been committed to the Elmira jail for a term of five years, the court having found him guilty of usury and forging commercial paper.

Senator Owen, as Chairman of the Banking and Currency Committee, has free access to all the finance departments of the Government, he made the freest use of his privilege to ask for information. While he thus knew what the Government was trying to bring about, and while he urged measures to reduce the rate of exchange of pesetas, and to raise the rate of the Italian Lire, his protegee' (Elmira jail No. 3677)

not only was short of pesetas, but increased his "bear position" in Spanish exchange, and entered into a highly successful bull speculation, as I am creditably informed, in Italian Lire. The Senator insisted in highest quarters, and wrote to the Board emphatic letters to the effect that permits should be granted to this criminal to export gold to Spain, so as to enable him to cover his ill starred bear exchange speculation. The permit finally granted, (not because the man deserved it, as Senator Owen urged, but in order to save the bank involved from serious losses, threatened by the imminent bankruptcy of the concern) saved Senator Owen's protege' and adviser the round sum of several hundred thousand dollars. He since, I am told, has made a small fortune by his Lira transactions.

It is only with great hesitation that I mention these facts, but they should not be withheld for the reason that it is all-important that the Senate should know, and that the people should know, on what evidence the Senate is called upon to pass far reaching legislation. Indeed, there is danger that without someone taking upon himself the ungrateful duty of throwing some light upon the case - not all the light, but at least, some - the Senator may succeed in sowing seeds that cannot but be promising of a harvest of evil.

PAUL M. WARBURG
17 EAST 80TH STREET
NEW YORK

FILING DEPT.

February 10, 1919.

MAR 5 1919

Dear Strong:

FEDERAL RESERVE BANK

I wonder whether you plan to come down this week for the Glass dinner. As for myself, I shall not be able to be present, as I have to be in Washington for a conference called by the United States Chamber of Commerce to discuss the railroad problem.

*Some phrases of financial reconstruction
copy made*

A few days ago I delivered an address at the Chamber of Commerce on that topic and am sending you a copy herewith, thinking that possibly you might be interested in what I had to say. I thought that possibly I might ~~probably~~ do a good turn by going at it in the same way that I originally approached the banking question, and that is the spirit in which I approached it about two months ago when I submitted some tentative memoranda. I am rather encouraged by what has happened so far, because ideas are apparently now crystallizing somewhat on the lines that I have indicated. In any case, I believe that what I am doing will help to center the discussion on the fundamentals, and to brush aside some of the cob-webs that appear to puzzle a great many minds.

I shall be back, I hope, Saturday evening, and if you are still in town by that time, if indeed you plan to come to the dinner, I hope I shall catch a glimpse of you.

I hope that your stay in the Adirondacks is having the desired result and that you are again on the ascending line.

We are back in town now since about a week, which makes it easier for me to remain in touch with things, but it is not nearly as pleasant as it was in the country.

I ran into Mr. Pratt the other day at a mens' dinner, and apparently he is studying the budget question, which is so close to your heart. It did not take me long to trace where the inspiration had come from when he asked me whether I would not be interested in taking a hand in that question. However, I have my hands full, for the present at least, with this railroad problem, which is very interesting and where there is lots of room for useful thinking and doing.

Hoping to see you soon or to hear from you how you are getting along,

Always sincerely yours,

Mr. Benj. Strong,
"Clumeden"
Lake George, N. Y.

INTERNATIONAL HIGH COMMISSION

CENTRAL EXECUTIVE COUNCIL

**THE CONVENTION PROVIDING FOR THE
ESTABLISHMENT OF AN INTERNATIONAL
GOLD CLEARANCE FUND**



**PUBLISHED BY AUTHORITY OF THE
CENTRAL EXECUTIVE COUNCIL OF
THE COMMISSION**

**CARTER GLASS, Secretary of the Treasury and
President of the Council**

**JOHN BASSETT MOORE, Vice President of the
Council**

**L. S. ROWE, Assistant Secretary of the Treasury
and Secretary General of the Council**



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1919

INTERNATIONAL HIGH COMMISSION
CENTRAL EXECUTIVE COUNCIL

**THE CONVENTION PROVIDING FOR THE ESTABLISHMENT
OF AN INTERNATIONAL GOLD CLEARANCE FUND.**

The draft of the convention providing for the establishment of an international gold clearance fund was prepared by the vice president of the council and the Hon. Paul M. Warburg, member of the United States Section of the Commission, in the summer of 1916, being based upon the conclusions of the meeting of the commission held in Buenos Aires in April, 1916. As submitted by the council to the national sections of the commission, the convention has been studied and found acceptable by several of them, and its formal conclusion between some of the American Republics is expected soon to take place.

While there is general agreement as to the practical advantages of the system proposed to be established by this convention, its operation and purposes have not everywhere been clearly understood. The council, therefore, wishes to clarify various points which have arisen in the course of discussion.

In order to understand the modus operandi of the plan, let us imagine the following transaction. A merchant in New York buys from another in San Francisco merchandise worth \$5,000. Unless he buys exchange he actually remits gold or currency to that amount, involving a loss of interest, and a positive outlay in express and insurance charges. Nevertheless, this is not what actually takes place. The purchaser in New York deposits his gold in the Federal Reserve bank, which makes payment through the Federal Reserve bank in San Francisco. The San Francisco bank complies with the telegraphic instruction and the San Francisco merchant is credited with \$5,000 for account of the New York purchaser.

In the course of time many such transactions occur, involving payments both in New York and San Francisco and between other points. From time to time the account is balanced.

So far as concerns transactions between points within the United States, the Federal Reserve system amply takes care of the situation, and that system is rapidly embracing more and more banks, having now more than eight thousand. The protection and supervision of the Federal Government is everywhere evenly distributed over its vast territory. In its report covering the financial record of the United States during the year 1918, the Federal Reserve Board makes the following statement.

GOLD SETTLEMENT FUND.

The general plan of operation of this fund has been described in previous reports and it is therefore unnecessary to make any further explanation of it. Owing to the great increase in the volume of business between the Federal Reserve banks, caused partly by Government war financing (including large transfers of funds received from the sale of certificates of indebtedness and Liberty bonds and subsequent redistribution of these funds among various centers in payment for munitions and supplies for the account of the United States and the allied Governments) and partly by larger use of the collection and clearing facilities of the system, particularly in the matter of wire transfers from one Federal Reserve bank to another, it was deemed expedient to install a system of daily settlements between the Federal Reserve banks in place of the weekly clearings which had been in operation since the establishment of the fund in May, 1915. The first clearing under the daily settlement plan was made July 1, 1918. The new system has worked with facility, rapidity, and smoothness, and has eliminated much clerical work at the Federal Reserve banks. In order to expedite the daily settlements and to improve the collection and clearing service, a leased telegraph wire system, connecting all the Federal Reserve banks and branches with the board's office at Washington, was installed July 1, 1918. Under the daily settlement plan each Federal Reserve bank telegraphs the board by 10 a. m., eastern time, the respective amounts credited to other Federal Reserve banks on the previous day. Upon receipt of the telegrams by the board, clearing is made by book entries, and within one hour each Federal Reserve bank is advised of the amount of credits for its account from the other Federal Reserve banks and also of the net debit or credit to its gold settlement account on the books of the board.

Since the installation of the leased-wire system, practically all transfers between the Federal Reserve banks for account of the Treasury are made directly through the fund. Settlements on account of rediscount operations between the Federal Reserve banks are also made by direct transfer through the fund, and on account of the instant contact afforded by the leased-wire system, transactions are completed within 20 minutes to 2 hours, the major portion of the time being consumed in the arrangements of details between the respective banks. Transfers through the gold settlement fund are of great value in these operations.

The transactions through the fund have a very important bearing upon the reserve position of the banks, and as all entries affecting the fund are made on the books of the board and at the banks simultaneously, the board is at once informed as to the effect of the day's transactions upon the reserves of each bank.

Combined clearings and transfers through the fund during the year 1918 aggregated \$50,242,592,000, as compared with \$27,154,704,000 in 1917, \$5,533,966,000 in 1916, and \$1,052,649,000 in 1915, making a grand total of \$83,983,911,000 since the operation of the fund was begun May 20, 1915. A comparison of the average weekly settlements shows clearly the growth of the volume of transactions.

Average weekly volume of clearings and transfers:

1918, July 1 to Dec. 31	\$1,064,596,000
1918, Jan. 1 to June 30	966,203,000
1917	522,206,000
1916	106,422,000
1915	31,898,000

Analysis of the principal transactions growing out of the Government's financial program and of the transactions through the gold settlement fund since the declaration of war, April 6, 1917, shows the important part the fund has played in fiscal agency operations, for through it the Treasury has been enabled to transfer, without the actual handlings of cash, vast sums from districts where they had accumulated to other districts where funds were needed to meet disbursements, the time consumed in transfers being measured in minutes instead of days.

So, too, many of the other Republics possess strong central institutions capable of functioning—so far as concerns gold clearance transactions—in the same manner as the Federal Reserve system functions for the United States. And, what is equally important for the domestic commerce of each nation, and more important for its foreign commerce, many of these institutions, if proper cooperation be organized, may, as at present constituted, enter into arrangements with one another for handling international transactions.

Here, however, arises an objection, stated perhaps thus: "When I have gold I want it here under the protection of my own country, whose laws I know. I do not wish to have my gold in a distant country about whose laws, organization, or stability I know little."

In order to meet objections of this nature, it has been thought desirable to establish an international gold clearance fund, under a joint or multiple international guaranty, so that the gold deposited in that portion of the fund happening to be within the jurisdiction of one government should be protected jointly by that government and by the representatives of all other nations which had become parties to it. This would constitute a joint guaranty not in the sense of obligation to make good any losses, but in the sense of an engagement to maintain the inviolability of the fund at any and all times, in war as in peace.

This guaranty is the essence of the plan. The aim is to assure the safety of an international fund in which private individuals may make deposits for payment in other countries, parties to the agreement, and from which other private individuals may receive payments due them. The convention does not take from the public store of gold, or from the funds of private banks, any definite amount of gold, setting it aside as a nucleus for an international fund. It provides only the machinery for the safeguarding of gold for account of other countries. It merely enables two banks, officially designated by the governments which conclude the convention, to proceed with entire safety and with a reasonable freedom in the arrangement of details, to deal with each other as if they were under one jurisdiction and were making use of one clearing house.

The convention provides that practical arrangements shall be made by the depositary banks as to the time and method of clearance and balancing of books. The intervals between such operations will be greater or less according to the character of the exchange of commodities between the countries entering into the agreement and entirely within the convenience of the contracting parties. In some cases it may be desirable to adjust the balance every four months; in other cases every six months; and in still others, every eight or nine months, or even once a year, or several years. In any event, the process will be the simple one of determining the net amount of gold to be sent by one depositary bank to the other in accordance with detailed arrangements previously fixed between them; and once this

transaction shall have been carried through, the account will have been adjusted and a new series of telegraphic transfers, through the channel provided by the fund, may freely begin. Each of the two governments committed by this convention to act as trustees of the international fund will designate a person or institution to share the custodianship and, upon occasion, check up accounts; and the third government (or as many more governments as may jointly be invited by the two contracting powers to share custodianship) will designate representatives in each of the two countries to share the custodianship of the one fund created by the two trustee countries.

How does the convention benefit in any way the country which has normally a favorable balance of trade? It has been suggested to the council that such a country will derive no benefit from the proposed plan, inasmuch as it will continue to receive payments of gold due to it for the commodities which it may export. It must be borne in mind, however, that a favorable balance of trade on the basis of the exportation or importation of commodities does not at all necessarily govern the volume or balance of payments. Many of the American republics have had in the past, and doubtless will continue to have, substantial payments to make each year, by way of interest payments upon the investments of private or quasi-public character, or by way of service on the public debt. Furthermore, not only transactions directly between country A and country B are to be taken into account, but transactions whereby debts of country A in country B are settled through exchange transactions between country A and country C. It is rather the balance of total payments from or to the given country which should be considered, and not simply the balance resulting from imports and exports, when the attempt is made to determine the value of a mechanism designed to eliminate the useless shipment and cross-shipment of gold.

The practical usefulness of the machinery which the convention seeks to establish, for the elimination of useless expense and risk, has already been emphasized. If, as frequently occurs, exchange swings from one gold point to the other, from a condition making for gold importations to one calling for gold exportations, the gold first deposited in the fund would then simply be released and the cost of the transportation to and from the other country, including two insurances and two losses of interest, would be saved for the benefit of the two contracting countries. Attention may also be briefly called to other considerations, not without importance. Through this channel, governments may, if they wish, transact business with each other or settle their accounts with international organizations, to the support of which they respectively contribute. To such extent, moreover, as may be permitted by conditions in the credit markets of the world, the relief of abnormal exchange situations can be facilitated through recourse to this international arrangement for the deposit of ear-

marked gold. The extent to which relief could be found for abnormal exchange situations would, of course, depend upon the individual circumstances; but the use of a direct, inexpensive, and expeditious method of adjusting balances through gold deposits would in itself have a salutary effect.

This mechanism is not obligatory; that is to say, persons who wish to ship gold may continue to do so, so far as the operation of this convention is concerned. In other words, it is purely a matter of discretion on the part of the financial and commercial community whether or not they avail themselves of it. The convention exists for their convenience; but if other reasons dictate the actual shipment of gold, there is nothing in the conclusion of this agreement which will prevent it.

In short, the purpose of the convention is to permit certain designated banks under public control to carry on transactions on account of their respective nationals, involving an international earmarked deposit account, to be balanced at appropriate intervals in a manner agreed upon by the depositaries. It aims to obviate useless expense and waste of time, and, to that extent, stabilize exchange. It facilitates recourse to a money of account. It will promote the unification of the law of telegraphic transfers. Above all, the convention seeks to create a secure and practical method of carrying on international business, so far as payments of interest or for commodities are concerned, in difficult times or under costly and insecure conditions of transportation. Exchange transactions will, of course, continue, and the council fully realizes that with the gradual return of normal shipping facilities and low insurance rates, the shipment of gold may again become inexpensive and advisable. But the council has in view the great desirability of establishing practical machinery which will make possible international payments to and from all of the American republics at times when conditions attending the shipment of gold become most difficult and uncertain. It has been borne in mind that precisely when the ordinary channels of such transactions become most unsatisfactory, it is just at that time, as a rule, that the "gold points" are reached and shipments become imperative. The council does not need to do more than call the attention of the national sections of the commission and, through them, of the financial communities of the American republics, to the situation which arose everywhere in this hemisphere when the European war broke out in 1914. How much confusion, loss, and widespread hardship would it not have been possible to avoid, if, at that time, there had existed some means of the kind to which the council again invites the careful consideration of the members of the commission.

In final form, and embodying modifications suggested to the Central Executive Council and found desirable, the terms of the treaty are as follows:

CONVENTION CONCERNING AN INTERNATIONAL GOLD CLEARANCE FUND.

Whereas experience has shown that the payment of debts arising in the course of commercial and financial transactions is often impeded and rendered difficult by reason of circumstances which interfere with and temporarily render impracticable the safe transportation of gold from one country to another, in consequence of which trade is deranged, values are rendered uncertain, and financial loss is incurred, the high contracting parties, being desirous to guard against such grave inconveniences, have decided to conclude a convention for that purpose, and to that end have appointed as their respective plenipotentiaries:

The President of the United States of America, -----, and The President of the Republic of -----

who, having exhibited to each other their full powers, which were found to be in due form, have agreed upon the following articles:

ARTICLE I.

With a view to stabilize exchange and facilitate the settlement of balances, the high contracting parties agree that all deposits of gold, made in banks designated for the purposes of this convention within the jurisdiction of either of them for the purpose of paying debts incurred in the jurisdiction of the other, in the course of private commercial and financial transactions, shall be treated by the respective governments as constituting an international fund, to be used for the sole purpose of effecting exchange.

To this end the high contracting parties agree never to appropriate any of the moneys included in such fund; and they furthermore engage, each within its own jurisdiction, to guarantee the fund, in any and all circumstances, in war as well as in peace, against seizure by any public authority as well as against impairment by or as the result of any political action or change whatsoever.

ARTICLE II.

The high contracting parties agree to act as trustees of the fund mentioned in the preceding article, and for this purpose each of them will designate a bank within its own jurisdiction to hold any part of the fund there existing as joint custodian with

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such person or persons or such institution as the high contracting parties may concur in appointing for that purpose; and the high contracting parties further agree to invite other countries, with which either of them may have concluded similar conventions, to appoint representatives to take part in such joint custodianship.

Such joint custodians shall hold the moneys so entrusted to them, as part of the fund, subject to the order of the creditors for whom the fund is held.

ARTICLE III.

The details of the practical operations of the fund shall be regulated and determined by agreement between the designated depositary banks, and in order to simplify and facilitate such operations the high contracting parties agree to take into consideration the adoption of a uniform exchange standard, permitting the interchangeability of their gold coins, for which purpose they recommend the adoption of gold coins which shall be either a multiple or a simple fraction of a unit consisting of 0.33437 gram of gold 0.900 fine.

ARTICLE IV.

This convention shall be ratified, and the ratifications shall be exchanged at within two years, or sooner if possible.

Each high contracting party reserves the right to denounce this convention at any time, it being, however, stipulated that the convention shall remain in force for one year after notice of termination shall have been given by either high contracting party to the other, and that on the expiration of the term of one year after such notice the said convention shall altogether cease and terminate: Provided, That the guaranty of the fund herein given by each of the high contracting parties shall continue in full force and effect so long as any part of the fund on deposit within its jurisdiction at the date of the termination of this convention shall remain unliquidated.

In testimony whereof the respective plenipotentiaries have signed these articles and have thereunto affixed their seals.

Done in copies,
at
this day of, 1919.

[Seal.]

[Seal.]



FRASER
JUL 8 1944

AMERICAN EMBASSY.
TELEGRAM RECEIVED.

Date..... September 8th, 1914

31 TS GX Filed 10:56 a.m.

Amsterdam 68

Benjamin Strong,
Care American Embassy,
London.

Suvretta Stmtz telegraphed you twice via Paris Am here
trying straighten out affairs of Nina's brother who still
very ill Sorry advice your Amsterdam visit reached me
too late What are your plans and what are ^Kcents can we
meet anywhere? Wire here or write Baden-Baden Hotel
Stephanie Kindest regards was signed Paul Warburg

De Nederlandsche Bank

3:05 p.m.

0051

C. or B.	Charges to pay
94	s. d.
By	

POST OFFICE



TELEGRAPHS

This Form must accompany any inquiry respecting this Telegram.

No. of Telegram	
Sent.....M	Office Stamp
To.....	
By.....	

Prefix	Handed in at	Office of Origin and Service Instructions	Words	Received here at
lb	9.0	Amsterdam	7 10.56 68	10/5a



Benjamin Strong care of American Amban Ldn.

Lucretia stutz telegraphed you twice via Paris
 am here trying straightening out affairs of Nina
 Prother who shes very ill sorry advice your
 amsterdam visit reached me too late what are
 your plans and what are cents can we meet
 anywhere? wire here or write Baden Baden Hotel
 Sophie Kundtst regarded (was signed) Paul Warbu



POST OFFICE TELEGRAPHS.

Office Stamp



If the accuracy of this Telegram be doubted, a part, or the whole, can be repeated under special conditions, particulars of which can be obtained on application at the Office from which it was delivered.

This form must accompany any inquiry made respecting this Telegram.

Office of Origin and Service Instructions.

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BADENBADEN 789 58 10/9 6,20 S :

Received here at

M.

= BENJAMIN STRONG CARE MORGAN GRENFELL CO L

LONDON E C =

EXPEC^T CEING AMSTERDAM OCTOBER 9 THEN LONDON 10
 TILL 15 SORRY CANNOTE CAME NOW LONDON CETTERS CARE H
 HOPE CO WILL REACH ME GEVE ME SOME DOPE CONCERNING
 NEWS HERE AND HOME ASK KONT TO WRITE S WILL MAT
 KIM LONDON OR AMSTERDAM REGARDS FOR BOTH PLEASANT
 TRIP = PAUL WARBURG .+

Σ 19 20 [P]

ANNUAL REPORT OF
PAUL M. WARBURG, CHAIRMAN,
EXECUTIVE COMMITTEE - AMERICAN ACCEPTANCE COUNCIL

-----000-----

During the year under review, the Committee on Policy and Operation steered substantially the same course as during the preceding year. It devoted its attention primarily to the objects that enlisted its main interest from the beginning, viz. the bringing about of a better understanding on the part of both the bankers and the public of the proper use of the bankers acceptance as a credit instrument; the establishment of a common accord concerning the best methods of distributing bankers acceptances, and finally, the development of a nation-wide and healthy discount market, including as its ultimate goal the establishment of dealings on the New York Stock Exchange on a term settlement basis instead of the present system of daily cash settlements. And the very aims that determined the policy of your Committee with respect to bankers acceptances, have guided it with respect to trade acceptances.

It is a great satisfaction to report that during the year under review it was possible for the Council to further develop and strengthen its relations with the Federal Reserve Board and the Federal Reserve banks. While from the beginning the Council has concentrated its energies toward carrying to the people, in as popular a form as possible, the message that the Federal Reserve Board and the Federal Reserve banks wished to impart to them, and on the other hand, to convey to the Board the views and requirements of the banks and the public as far as from time to time they were formed from practical experience, it is a pleasure to record that during the current year these efforts and ambitions of the Council have become more and more successful.

Your Committee believes that it may safely state to the members of the Council - without fear of laying itself open to the charge of claiming credit to which it is not entitled - that by acting as intermediary and advisor in

both directions it has rendered important services in assisting in the formulation and adoption of the best principles to be observed in the use of bankers and trade acceptances. In dealing with these questions, the Committee could always rely on advice and support on the part of members and officers of the Federal Reserve Board and the Federal Reserve Banks - be it in their official or in their individual capacity - and it avails itself of this opportunity to express to them the Council's genuine appreciation of their warm interest and cooperation in the Council's work.

The report of the Committee on Publicity gives a full record with respect to the lines on which its publicity campaign moved during the year under review. The work of education, as far as concerns the making of acceptances and the purpose for which they may properly be used, may soon be considered as fairly completed. The Council will have to continue however its fight against abuses, new varieties of which must be expected to spring up from time to time.

Recently the Council's attention has been drawn to very serious occurrences that threaten the standing and future growth of the American bankers acceptance. The heavy decline in commodity prices has called forth attempts on the part of foreign purchasers to free themselves from contracts which were bound to subject them to grave, and in some cases even fatal losses. This has induced them to bring pressure upon our banks to refuse to accept confirmed letters of credit which had been issued for the purchaser's account. In fairness it must be stated in their defense that in several cases they were themselves the victims of sharp practices on the part of foreign sellers, who had delayed, or wilfully omitted, shipping the goods while the trend of the market was in favor of the purchaser, but who now were using every legitimate, and often illegitimate, means to hurl the merchandise at the importer, when the contract had turned in the shipper's favor. But even where fraudulent or sharp practices of this sort were unfairly indulged in by such shippers, this cannot be permitted to effect the sacred pledge embodied in a confirmed letter of credit, which must be respected in all and any circumstances, as

long as the terms and conditions of the letter of credit are being observed under which the accepting bank had issued the credit, no matter what loss this may possibly involve for the customer.

The fact may not be disregarded that there is a third and innocent party interested in the transaction, viz: the bank or firm that purchased the bill on the strength of the confirmed letter of credit; these bona fide purchasers must be protected at all hazards if the American dollar acceptance is to gain, or retain, a position as a world's instrument of exchange of equal standing to the Sterling bill.

A bank that dishonestly refuses to fulfill its obligations under such a contract because it, or its clients, might suffer a loss, or because such customers bring pressure upon it to disregard its sacred pledges, or even try to inveigle inexperienced judges into granting injunctions, in order to prevent the bank from giving its acceptances, ought to be held up to public contempt and any bank found to connive or indulge in such immoral practices ought soon to learn that its acceptances have become unsalable in our own market as well as in foreign lands.

Credit is not only a question of financial strength; the moral side is a factor of equal if not greater importance. The American banking community, under the leadership of the Federal Reserve Board and Federal Reserve banks - unless they are willing to see destroyed their ambition to establish the American bankers acceptance in world markets - cannot afford to leave any doubt that they will eliminate from the ranks of American acceptors any accepting house that does not live up to the highest standard of business ethics.

The few unfortunate occurrences that have given rise to this discussion and the mistaken action of judges that were foolish enough to grant the shield of temporary protection to crooked manoeuvres until better knowledge of the real facts forced the courts to withdraw such protection, in some cases were probably due to ignorance rather than bad faith.

The acceptance business, and the very perplexing phases that it involves,

were probably new to these judges and to many banks, some of whom went into this business without a sufficiently careful study and without having a personnel adequately trained in the intricacies of these particular transactions.

The Council will do its utmost to throw light on these practices so that both the courts, the legal profession, the banks and the public should fully understand what it involved in the problem. On the other hand, it will emphasize to buyers of American bankers acceptances that the law fully protects them, in the same manner as the British law, no matter what temporary subterfuge a disreputable drawer or acceptor may resort to.

A great deal remains to be done in developing a genuine and reliable acceptance market in the United States. Very satisfactory headway has been made during the year. The proportion of bankers acceptances held today outside of the Federal Reserve banks has grown from 40% early in 1919 to nearly 75%. The further the aggregate amount of outstanding United States Treasury Certificates will be reduced, the larger will become the amount of bankers acceptances held as a quick asset and a secondary reserve by country banks, savings banks and other financial and commercial corporations. Much remains, however, to be done in this direction. While in some states the savings banks have been able to secure legislation permitting them to purchase acceptances, and have been able to avail themselves of this privilege to a very substantial degree, there still remains quite a number of states in which legislation on these lines ought to be sought and, in certain cases existing legislation ought to be amended. For instance, in the State of New York savings banks are permitted to buy only the acceptances of member banks, while the acceptances of other corporations that under the Federal Reserve Act have been organized for the very purpose of granting bankers acceptances, without being member banks, but having member banks as lawful stockholders, cannot under existing New York State law be bought by savings banks, which are also precluded from buying acceptances of the large private banking firms, even though these bills be endorsed by member banks.

A wide acceptance market, such as must be our ultimate aim, can only be secured if we eliminate as far as possible unnecessary red tape and discriminations and permit the market itself to develop the best of what is the standard of a prime bankers acceptance, as is done in London, where such thing as a "member bank", or the like, is not known.

During the coming year your Committee believes that the Council should direct its strongest efforts in the direction of further perfecting a system of country-wide distribution of bankers acceptances. Excellent progress has been made in reaching a more general accord upon the point that the proper method of selling bankers acceptances is through the drawer of the bill instead of through the acceptor. The lack of unanimity that last year still existed in this regard has fairly well been overcome and leading accepting firms are now in practical agreement that in the interest of the country as a whole the placing of bankers acceptances through the acceptor must be considered as an undesirable practice.

Discount companies and private firms have done a great deal towards widening the circle of purchasers of bankers acceptances. The Council will continue with unabated vigor to impress those in charge of our 30,000 banking institutions, that it is their duty, and at the same time a means of protection for themselves to become regular and substantial purchasers of bankers acceptances.

Just a year ago our Committee stressed in its annual report the great importance of seeing the New York Stock Exchange placed on a basis of dealings on term settlements rather than on cash dealings. The present system involves for both the Stock Exchange and the country at large grave economic disadvantages and dangers, at the same time it offers serious obstacles to the untrammelled development of a reliable discount market in the United States.

It is unnecessary to repeat at this juncture what was stated a year ago; but it is a great satisfaction to register the very substantial headway made

towards the ultimate goal. The New York Stock Exchange during the period under review established a machinery for the clearing of Stock Exchange transactions, which has proved highly admirable and for which credit is largely due to the Chairman of the Clearing Committee, Mr. Samuel F. Streit, whose interesting reports concerning this topic have been published by the Council.

It is natural that with conditions as tense as they are and with the gigantic transactions involved, progress can only be made cautiously and that impatience must not be permitted to induce those in charge to take further steps before the ground has been thoroughly prepared. The Council feels certain that the matter is being pushed just as fast as it can be with safety, and has every confidence that in due course further satisfactory progress will be made.

The New York Stock Exchange may consider it a great achievement that it could carry out the changes in its technique without any serious hitch or jar while the engine was kept moving at top speed, and this permits us to hope that the next steps will be undertaken with equal success.

In formulating its future policy with respect to trade acceptances, the Committee might well take it for granted that, as far as the desirability and the soundness of the trade acceptance method for certain branches of trade are concerned, the argument has been won. The proof of the pie, after all, is in the eating of it. When so many hundreds and thousands of firms are testifying as to the excellent results that they have actually secured by adopting the trade acceptance, it seems idle to continue to argue with people who persist in their broad assertion that the use of the trade acceptance is inadvisable or impracticable. The Committee will, however, find it a most important duty to continue to watch the development of undesirable practices in the use of the trade acceptance. The standard of the trade acceptance must not be permitted to deteriorate. What has been said about bankers acceptances in this regard applies with equal force to trade acceptances. The future of both instruments is at stake if practices are permitted to be indulged in that run counter to sound business methods and ethics.

It may be proper for the Council on this occasion to place on record that it views with great alarm the epidemic of cancellations that is sweeping the world at this time. It is intolerable that business ethics should be believed to permit a purchaser or seller to hold a contract as binding only as long as it offers advantage, but that it could be treated as a scrap of paper when the contract involves a loss. While the banking community must insist that its members will hold their shield free of any blemish in this regard, it is evident that the safety of banking operations is put in jeopardy and that the whole credit structure must suffer if the code of business ethics is permitted to be undermined.

CHAIRMAN.

*Mc
Personal*

PAUL M. WARBURG
17 EAST 80TH STREET
NEW YORK

January 26, 1920

Dear Strong:

Nina and I were very glad to get your post card and see from it that you had arrived safely. Let us hear from you from time to time as to how you like the place.

I just returned from Washington, where I had to spend a week attending the Pan American Conference. It was hard work and, I think, on the whole a fairly successful meeting, though there was no real snap to it - Glass making a rather lame presiding officer, without any enthusiasm and no ability to electrify the crowd as McAdoo had at the last meeting. The opening by Lansing instead of the President was, of course, a cool affair. On the whole, I should say that we are getting more down to business and away from oratory; however, the trouble is that in view of our congested market we cannot talk very much business either.

I enclose copy of a speech which I delivered at the Thursday's session. I am sorry you were not on the program and that Senator McCormick had to make the budget speech instead. I could not stay to listen to it, inasmuch as I had to get back to the Resolutions Committee, which had to finish its work that evening, but I believe he made quite a good speech. He is a clever guy, but erratic and somewhat dangerous. Tomorrow there is a Pan-American lunch at your bank and we shall miss you. I shall be glad when the ^{Pan American} show will be over.

Discount rates went up at last to 6%, with all kinds of strings to it; but, on the whole, I think it is a satisfactory move, a step which only should have been taken long ago. I believe I helped just a little by ^Qtaking to some of the members about two weeks ago, and also by occasionally dropping a hint in the public press. An editorial which I wrote for the Acceptance Bulletin I think was timely.

I enclose a copy. All of this, however, need not bother you now and I hope that you are playing just as hard as you can and forgetting about Wall Street and other unfortunate spots in the world.

Yesterday I read Mr. Keynes' book, all except the two last chapters which I have reserved for tonight. I wonder whether he sent you a copy. In any case, I am ordering one here for you and hope it will reach you soon. You may not agree with the book as much as I do, and I have no doubt that it will call forth some hot rejoinders. I believe, however, that in any case it will do a great deal of good in throwing the limelight upon a situation which will have to be remedied unless we all will have to go down to posterity as a crowd without backbone and honor.

I also enclose a copy of the American appeal with its final signatories and lists of the people that signed in Europe. It is, I believe, quite an impressive demonstration.

Washington discourages me tremendously. Polk is splendid and refreshing. He still has the right conception of things and his old frankness and punch in spite of his poor health.

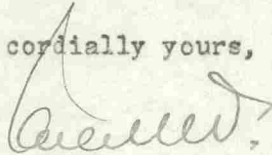
Leffingwell is going through a hard time - poor devil! While he is wonderfully brave and appears to laugh it off, it is no fun to be in a position of waiting upon the Lord Almighty to smile upon you or throw you into the discard. I think Leffingwell is quite sincere and honest when he says that he really would prefer to get out; at the same time nobody likes to be placed in that position of having been a candidate. Wilson's method of handling this case is just as inconsiderate and characteristic of the man as ever, and stupid at that, because even if he now appoints Leffingwell, as I sincerely hope he will, he will have succeeded in taking all the enthusiasm out of the man, who would, of course, feel that it isn't a whole-hearted and enthusiastic appointment, but one made with great reluctance and possibly as only the best way out. Leffingwell certainly deserves it and I

should be terribly disappointed if he should not get the job, even though I do not find him at his best just now and rather disappointing in spots. He gives the impression of a man who has been working too long in the same surroundings and under great strain -- God knows that the task of the next Secretary of the Treasury will be a terribly thorny one. At present they are so scared in that office that they do not dare move one way or the other. They wish to keep the Government out of it as far as possible, which is sound, but they are not encouraging any other real constructive move for fear of exposing themselves to attack at this critical juncture.

Sir George Paish -poor soul- muddied the waters and made them ^{scarier} more than ever.

With warm regards from Nina and best wishes from us both,

Always cordially yours,



Benj. Strong, Esq.,

Castles Hot Springs Hotel,

Hot Springs, Ariz.

Calverton

ACKNOWLEDGED 31 PINE STREET
NEW YORK

JUN 12 1922

R S

June 9, 1922.

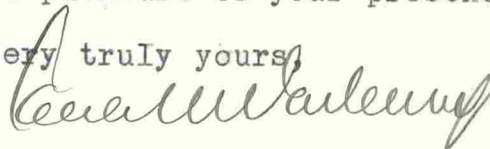
Dear Mr. Strong:

It seems certain to some of us that in the coming campaign the question of fiat money will play a large part, and I believe we must not underestimate the dangers of that issue. Henry Ford's and Thomas Edison's siren songs must not be treated lightly in a country, that has twice deliberately destroyed a sound banking system. Some of us, who are profoundly interested in protecting the integrity of the Federal Reserve System and the future of our banking system as a whole, have been considering what would be the best ways and means of keeping the country at large informed as to certain fundamental questions of money and banking. There is a league, at present called "The Stable Money League", which can be used to good advantage in this respect, and which has made certain preparations on these lines. We have been fortunate in securing Mr. Waddill Catchings to act as Chairman of the Executive Committee of this league.

Before starting upon the campaign of education, Mr. Catchings is very anxious to meet a small number of men, who might be willing to act in an advisory capacity in directing the efforts of this league, without at all appearing publicly.

I have asked a few men to meet Mr. Catchings on the evening of Tuesday, June 20th, at dinner at the Plaza Hotel at 7 p. m. Would it be possible for you to join us? We hope to adjourn at half past nine, so that everybody can still get back to his respective country place. I sincerely hope that I may count on the pleasure of your presence.

Very truly yours,



Benjamin Strong, Esq.,
Federal Reserve Bank,
City.

PMW.N

JUN 10 1922

RECEIVED BY
GOVERNOR'S SECTY



Before starting upon
Mr. C... I very anxious
of men, who do not wish to
to help in this... of the
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I have... to meet Mr. C...
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Benjamin Strong, Jr.

31 PINE STREET
NEW YORK

November 14, 1922.

Dear Strong:

My brother Max, who sailed today, was asked during his stay here by several papers to write an interview for them concerning the German situation. He did so, but decided at the last moment that it would be better not to give anything to the press.

I thought that possibly you might be interested in seeing this paper, and I am taking the liberty, therefore, of sending it to you for your confidential use.

With kindest regards,

Sincerely yours,

Loss in file
Woodward

Benjamin Strong, Esq.,
15 Nassau Street,
City.

PMW.N
Encl.

31 PINE STREET
NEW YORK

November 14, 1922.

Dear Sirs:

My brother Max, who called today, was
asked during the stay here by several papers to
write an article for them on the
situation. He did so, but decided at the last
moment that it would be better not to give anything

to the press. I thought that possibly you might be
interested in seeing this paper, and I am taking
the liberty, therefore, of sending it to you for
confidential use.



With kindest regards,
291 81-VON

Sincerely yours,

Benjamin Strong, Esq.,
15 Nassau Street,
City.

RMW:M
Encl.

*Referred to in letter of
Mr. Paul Warburg 11/14/21*

THE GERMAN PROBLEM

by Max M. Warburg.

I have been in the United States for two months as an "unofficial observer", whose main functions appear to be to see the things that might be done, and cannot be done, along side of the things that should not be done, and are being done. That, at least, seems to have been the unhappy fate of your "unofficial observers" in Europe. But, I have had the advantage over them inasmuch as in America, speaking by and large, things are bright and hopeful, while what the "observer" sees in Europe is dark and depressing.

I have not been able this time to visit the West, but I have been agreeably surprised to observe in the East how well your leading men understand the present European political and economic problem. There is a very real and sympathetic comprehension of the difficulties and the sufferings of the Old World, and deep down there is a genuine eagerness to help, smothered, however, by the fear of getting mixed up in the turmoil without being able effectively to save the situation.

While, viewing the European embroglio from across the seas, one can hardly blame the average American for this fear of needlessly burning his hands, one is tempted nevertheless to ask oneself: Was it really necessary for

conditions to become so desperate, and would it not have been possible to arrest the disintegration of Europe if America in the past had taken a more active hand in the affairs of the Old World? In saying this, I do not wish to be understood as wanting to argue for America's entry into the League of Nations. But, between so far-reaching a commitment and the other extreme of entire aloofness, there lies the famous "middle road", which many of us hoped America might see her way clear to follow.

It is a matter of fairly common agreement today, that since the end of the War, governments of some of the leading European countries have done, not only obviously stupid and destructive things, but that they have committed these blunders with open eyes and often unwillingly and regretfully, simply because the pressure of home politics and war begotten passions were stronger than their conscience and reason. If America had only been officially represented on the Reparation Commission, her influence could have helped the forces of reason to assert themselves sooner, and some of the bitter and wasteful lessons of painful experience, that Europe is learning today, might have been avoided. Having been in the United States for two months, I fully understand the chains that unfortunately have tied Uncle Sam's hands in the past; but - the elections being over, - the Old World hopes that he now may see his way clear to free himself, at least so far as to be able to change his role of an unofficial ob-

server into that of a disinterested mediator between the European nations. It is perfectly true, as has often been said, that the United States cannot help Europe until Europe helps herself, but Uncle Sam can render valuable and indispensable assistance by guiding Europe in these very efforts "to help herself". Unless European disintegration can be arrested in the immediate future, nobody can tell how far it may go, and it is idle to think that America would remain unaffected by an increasing political and economic upheaval in Europe. It is reported that Bismarck once said that he would not sacrifice the life of one single Prussian grenadier for the sake of peace in the Balkans. None the less, it was a Balkan explosion which ultimately blew up Germany. Many people in the United States are apt to take a similar point of view concerning Europe, but the technical and intellectual ties that bind the Old World to the New are stronger today than were those that connected the Balkans and Berlin, and - whether she likes it or not - America's future is inextricably tied to that of Europe, and it is dangerous for America to close her eyes to the lessons of past history.

It seems strange that this fact should not be more keenly realized by the farming sections of the country. It is they, primarily, that will suffer from a further crippling of Europe's purchasing power. It is the last ten per cent of an article that makes the price, and it is the producers of America's staples that will feel Europe's dis-

integration more than any other class in the United States. America, so far, has not had a real taste of what a complete collapse of Central Europe's purchasing power would involve. Whilst Germany's purchases naturally have gradually decreased, due to the terrific decline of the purchasing power of the mark, she has, after all, been forced up till now to buy substantial quantities, even though she could do so only at the price of further precipitating the collapse of the Reichsmark. But, it is not difficult to foresee what will happen when the mark will be so far reduced that it will become entirely impossible for Germany to continue the purchases of foodstuffs and raw materials which she requires in order to prevent extreme suffering, unemployment, riots, and conceivably, open civil war.

My own regretful conclusion is, that we shall have to face these possibilities in the coming winter and spring unless a radical turn for the better will occur, which can only be brought about by an entirely changed attitude on the part of the Allied governments in enforcing the Versailles Treaty. As it is, Germany, within a few months, will have neither food nor coal enough to keep her people in reasonable health and comfort. It is amazing to see how few of the many who in recent years have visited Germany have been able to perceive how sick Germany really is. Economically, she is suffering from pernicious anaemia. The casual observer is easily lead to believe that a man who is busy must needs be a prosperous man. But Germany is like a

huge factory whose wheels are going at full speed, but which throws the finished product into the seas. The longer such a factory works, the poorer it gets, and the faster it works, the quicker it depreciates. Germany's deliveries of coal, goods, or of actual cash must be considered from that point of view. A large share of the billions of paper marks that foreign countries bought have only served to accentuate this ruinous effect. The mark in foreign countries falling so much more rapidly than the purchasing power of the mark in Germany, the latter for four years has been selling her goods much below the price in world markets, so that Germany never could replace the goods sold except at a huge loss. It is true that in such transactions, Germany temporarily secured a new purchasing power enabling her to re-stock her supply of raw materials, or to produce foreign balances with which to pay indemnities. In all these transactions, however, Germany, as a whole, was a heavy loser, except where a foreigner bought the Reichsmark for pure speculation without investing in German goods or shares. In that case, instead of being a buyer at a bargain sale, he became a partner in a concern that was being sold out by his creditors.

A plain consideration of these facts would show how utterly impossible it is for any bank to estimate how much foreign countries may have lost through purchases of Reichsmarks; because no bank can tell the purpose for which its customers bought these Reichsmarks. That much

is obvious, however, that what foreign countries lost is a mere trifle as compared with the losses and sufferings the German people have undergone through the depreciation of the Reichsmark. The middle classes, that heretofore had modestly subsisted on savings of the past, have now been completely wiped out. Those of them who are unable to become workers of some sort are, literally, starving, freezing, and dying. The working classes, on the other hand, ever since the Armistice, have tried in vain to catch up in the mad race with constantly rising prices. It is a fact that since the War the German laboring classes have never been able to get back to a fair living standard. It is generally assumed that the standard of living of the working classes has been reduced by about fifty per cent. In spite of all that, one constantly hears stories of German prosperity; and high dividends are cited as proofs of this contention. How ridiculous this assumption is, a simple illustration would show. If a man had one hundred marks in 1914, and these marks drew five per cent interest, that is five marks per annum, he could buy for that one hundred eggs. If his dividend increased from five to twenty^{-five} per cent, and he received today twenty five paper marks, that would suffice to buy two eggs, or even only one. A plain consideration of facts like these shows how fictitious prosperity of this sort is, and how necessary it is to reduce paper dividends, and paper income in general, to the common denominator of the cost of living if

one wishes to find a reasonably fair standard of comparison. Insufficient consideration of this point is largely responsible also for the mistaken statements made with regard to comparisons of taxation levied in Germany, France, and England.

In a similar manner, fallacious conclusions have been drawn from Germany's low figure of unemployment. It is generally overlooked that the German state railways and the Post Office employ about two to three hundred thousand men more than would be necessary for efficient operation. But, with one hundred thousand soldiers available to control sixty million people, the Government cannot take the risk of throwing these men into the streets. Moreover, the German people work only eight hours today, instead of ten as before the War, and owing to undernourishment the general efficiency is low. In other words; while Germany is busily working, her production has gone back, as would follow conclusively from the two facts that both her foreign trade and the living standard of her people have been cut in two. She has not been able to export enough to pay for her imports, and in order to pay for her excess importations, and to produce her indemnity payments, in cash and kind, she has been exporting and surrendering her capital for the last four years.

In the past, internal prices and wages have been following only gradually the decline of Reichsmark exchange in foreign markets. Periodically there always existed,

therefore, a handsome margin for the manufacturers and the foreign buyer until domestic prices had crept up again so as to wipe out the excessive margin. Whenever that point was reached Germany's export business came to a temporary halt, while the demands for indemnity payments and for raw materials, particularly food stuffs, continued. As a consequence, the mark had to be offered again, while no immediate balances were available, and the price of the mark had thus to be thrown down once more until a sufficient margin again existed in order to act as a new incentive for foreign buyers of German things. This explains why the chart of the collapse of the mark registers periodical jumps, which were accentuated from time to time, or softened, according to the influences of hope or despair engendered by the policies adopted by the Reparation Commission. Recently the bottomless drop of the Reichsmark has not had the effect, however, of stimulating Germany's export trade. Conditions have become so chaotic that the German manufacturer and exporter do not dare any more to enter into substantial contracts for the delivery of goods at any definite price, because no one can tell from one day until the next what wages will be, or the price of foreign exchanges on the basis of which ^{raw} ~~said~~ materials will have to be bought. This explains the marked decline of German exports in recent months.

People have been wondering why France in 1871 could pay her War indemnity without an economic collapse,

while Germany's finances are caving in under her burden. The explanation is simple. Bismarck stated in 1871 that his first concern would be to conserve France's credit so that she should be able to pay. The Entente, on the other hand, set out to destroy Germany's credit so that she could not pay. Bismarck imposed on France an indemnity of one billion dollars, that is about two or three per cent of the estimated total worth of that country (in 1914 France was valued at fifty billion dollars and Germany at about seventy-to seventy-five billion dollars). The first indemnity placed on Germany, however, was sixty billion dollars, or about eighty per cent of her worth. It is true that later on it was reduced to thirty-two billion dollars. There it stands today, and equals about forty per cent of her worth! It was obviously impossible to raise such an amount from taxation, while the very imposition of so entirely unreasonable and impracticable a load so completely destroyed Germany's credit that, both at home and abroad, it became entirely impossible for the Government to borrow a penny by the sale of Government loans. But a starved and excited population had to be clothed and fed, and deliveries had to be made to the Entente if further penalties and disorganization were to be avoided. Thus, the Entente forced Germany on the dangerous and precipitous path of paying debts by printing additional currency, a road which inevitably had to lead to the present economic disaster. In money, securities, deliveries in kind, surrendered ships, rolling stock,

confiscated properties, etc. etc. - but not figuring any compensation or credit for the lost colonies - Germany has turned over to her Entente creditors values estimated at about ten billion dollars, which is about fifteen per cent of what Germany may be estimated to be worth today. In order to compensate her nationals for the property taken from them, or in order to pay for deliveries in kind, there was no other method of payment but the issue of additional Treasury notes and circulation. Why then did people wonder at the rising tide of German currency? Germany was ordered to stop the printing of notes; but at the same time commanded to continue her indemnity payments and to indemnify her nationals for confiscated property. One might just as well order a chauffeur to drive his auto a thousand miles, but not to use a drop of gasoline. Inflation could be stopped only if, temporarily at least, indemnities and confiscations were arrested.

With a comparatively unimportant dislocation of price levels America has found it impossible to bring into balance her structure of railway rates and wages, and you have found out that productive taxation cannot be increased beyond certain limitations. You have also found how difficult it is to balance a budget even with comparatively stable conditions. It is unnecessary, therefore, to stress the point of how utterly hopeless it is for Germany to attempt to balance her national budget and that of her railways and other government enterprises as long as the

Reichsmark continues the mad "danse macabre", and wages and prices fluctuate in hundreds of per cent from one month to another. Taxation in Germany reaches much further down than in France, while the highest bracket of sixty five per cent applies to the many that earn a few million marks (a million mark equalling one hundred fifty or two hundred dollars - according to the daily fluctuation.) When these sixty five per cent have been paid, the remaining paper marks will not buy much, while the marks earned in the past, have once more been decimated by the process of galloping depreciation. There is a vast difference in the economic effect of taxation when its proceeds are spent within the confines of a country (when taxation means only a wasteful process of redistribution of income and property between the nationals) or when the proceeds of taxation are thrown out of the window and into the seas. The latter is largely Germany's condition and explains, to a certain extent at least, why she is in so desperately critical a state today.

What can be done about it? That is a long story, - simple and sad. Germany in her present state of collapse and exhaustion needs a breathing spell. She requires five years of complete rest so that the mark may settle down to some level of stability. Then only will Germany be able to balance her budget and to make an honest balance sheet, and the world at large will be able to judge what her real strength will be as she emerges from the War, crippled in resources, and with a larger population than her present

depreciated plant can sustain. Given such breathing spell, and given a reasonable support in this process of stabilization, and given the assurance that after its accomplishment it will not again be hopelessly upset by the imposition of excessive indemnity payments, Germany's credit and her economic and moral structure can be rehabilitated, at least to such a degree ^{the gold equivalent of} that a certain proportion of her exports (let us say ten per cent) may be set aside and turned over to her creditors for a number of years to be agreed upon. That annuity could be made the basis of a safe international loan and, if the interest installments for the first five years were set aside and retained from the proceeds of the sale of the loan, it could be placed on the market today, and provide for some payments to France and to America, and for a moderate stabilization gold reserve for Germany. America's claims against Germany could thus be settled, and the confiscated private property could be returned. I need not enlarge upon the point that the vindication of the principle of the sacredness of private property is of vastly greater importance for the United States than for Germany. It is to be added that these thoughts are predicated upon the assumption that the armies of occupation will be withdrawn. As it is today, Germany pays four hundred thirty million dollars for their upkeep, and that is more than twice the cost of the entire administration of the German government, and about twenty per cent of Germany's gross export trade in her most prosperous period.

The depreciation of the mark is breaking Germany's back not only economically, but also morally. If at the end of the War a man put one thousand marks into a savings bank, he cannot buy a pair of shoes with it today. If he had converted his one thousand marks into dollars, ^{or peare} he would be worth about one million five hundred thousand marks today. In other words, "Save, and you are lost! Buy things or foreign values and you win!" Is it possible to conceive of a more pernicious state of things! May we be surprised if it creates a country divided into three classes of society: one that suffers and goes under in decency; another that profiteers cynically and spends recklessly; and another that writhes in desperation, and wishes to destroy in blind fury whatever is left of a government and of a society that permits such conditions.

If you have a poor crop in the United States, the party in power generally loses the next election. How long, do you think, a liberal republic will be able to sustain itself in Germany if her Government will prove powerless to bring about a change within the near future? Germany has been the bulwark against Bolshevism, her liberal and most constructive elements hold out their hands to the democracies in the West. If no response is coming from that direction, either the leaders of reaction or of communism, or both together, will succeed in turning Germany to the East. That would be a fatal day for Western civilization, and for the peace and progress of the world.

Economically, it is easier for Russia to recover than for Germany. Russia - an essentially agricultural country - is like a broken table, easy to repair. A few good crops may put her back on the road to recovery. Germany, on the other hand, - a complicated industrial unit producing only a small portion of the food she consumes - is like a broken clock-work. It will take infinite patience, time, and intelligence to repair every piece of the intricate machinery and set it going again. If Germany is doomed to sink into chaos, she will not be able to play an important part in reconstructing Russia. Instead of Russia and Germany recuperating as two independent units, the result then to be expected will be a "merger of miseries". Even though politically they would remain separate, their common necessities, sufferings, hatreds, and contempts would weld them together and in this amalgamation the Slavic race might easily become the dominating element. With Mahomedan pretorian guards conscripted in Africa, and carried across the Mediterranean by France in order to be taught how to overlord the white man - and white woman, and with the Turk back in Europe, one cannot view with calm indifference the prospect of seeing Asiatic civilization advance its frontier lines from the Vistula to the Rhine.

The flight of the mark has been the inevitable economic consequence of the policies pursued by the Entente and of the panic it has engendered in Germany. A reasonable settlement of the indemnity question - and nothing else -

will arrest it. With the return of confidence the mark will stabilize, and faith and hope will come back, without which the Germans will not continue to do productive work, and without which Germany's creditors cannot hope to collect anything from their debtors. A nation of beggars is more dangerous than one that still has something to lose. Russia and Turkey have opened the world's eyes in that regard. Let the Entente take good care to learn from that lesson before it may be too late.

Personal

Dec. 22. 22.

17 EAST 80TH STREET

Dear old Ben,

Your good letter and
the two books you sent us "gave much
pleasure" to Nina and yours truly -
particularly the good wishes that accompanied
the printer matter. I am much interested
in Cassel's writings even though, - or may
be because, - I do not quite follow him.
But he may be the wise guy - and I
the numbskull. I try to be open to
conviction - even though I do not always

Succeed, as you know!

And now, since it is not only Xmas
but also your birthday, as Anna says,
let me send you a book about the
blessed F.R. System, which, ^(the book) seems to be
good. May the good old system and
the man who has done more to keep it
high and out of mischief, than anybody
else, have a good and satisfactory
1923! May it ~~feel~~ ^{lead} us completely out,
where we see dark things ahead now,
may the silver lining prove a real
gold reserve on which to build for
the future. If it doesn't it won't be
your fault.

But the main thing is good health and happiness for you
and yours and that is what I wish most for you.

Always yours
Carroll T.

Succeed, as you know!

And now, since it is not only Xmas
but also your birthday, as Aunt says,
let me send you a book about the
blessed F.R. System, ^(the book) which seems to be
good. May the good old system out
the man who has done more to keep it
high and out of mischief, than anybody
else, have a good and satisfactory
Xmas! May it ~~put~~ us completely out,
where we see dark things ahead now,
may the silver linings prove a real
gold reserve on which to build for
the future. If it doesn't it won't be
your fault.

But the main thing is good health and happiness for you
and yours and that is what I wish most for you.

Always yours
Oswald.

31 PINE STREET
NEW YORK

MAILING DIV.
MAR 8 1923
FEDERAL RESERVE BANK

Confidential

March 7th, 1923.

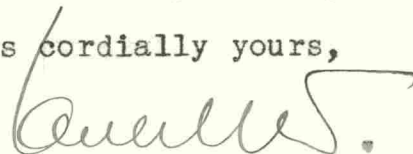
Dear old Ben:

The enclosed may amuse you, and that is why I send it. Kindly return it after you have read it.

I hope you will have an excellent trip and that the snow will not delay it. If you will let me know where you are I shall be glad to write you from time to time such news as may entertain you.

With all good wishes from my ladies, I am,

Always cordially yours,



Hon. Benjamin Strong,
470 Park Avenue,
City.

PMW.H

31 PINE STREET
NEW YORK

April 23rd, 1923

Dear old Ben,

I am delighted to hear the good news about you from your fellow-workers of the Federal Reserve bank.

Nina and I were also tremendously pleased to learn of your boy's engagement. He certainly is not losing much time in starting out on his own feet, and we both wish you and him every possible happiness in his future marriage and career.

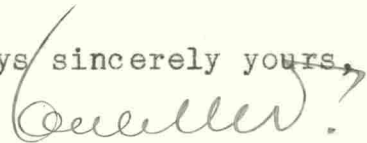
Peter Jay permitted me to read parts of your letter to Owen Young, and I was much amused by your description of your cure. I hope it will be entirely successful, and that you will have every reason to be satisfied with your progress.

Just in order to keep you busy I am sending you under separate cover a copy of the April number of the Netherlands Chamber of Commerce publication, which has all kinds of "dope" about the Dutch East Indies; at the same time I am sending you a copy of "Asia", which was devoted almost exclusively to that part of the country in which I know you are so very much interested.

On Thursday we give a dinner to Mr. Goodenough of Barclay's Bank, of London; I shall miss you on that occasion. We cannot have too many Englishmen coming over just now. They are the only fellows, who have got the right idea both concerning international politics and international finance. Your friend Tiarks is also expected here very shortly. They have great plans to start a firm over here together with Schlubach; I assume you are fully advised concerning all that.

With warmest regards, in which all the family joins most cordially, I am,

Always sincerely yours,



Benjamin Strong, Esq.,
Governor, Federal Reserve Bank,
15 Nassau Street, New York.

Warburg

31 PINE STREET
NEW YORK

May 2nd, 1923.

Dear Ben,

It does my heart and my eyes good to see your handwriting, and I am delighted to know that you are doing well.

I can sympathize with you when it comes to writing articles, which for reasons of state and other valid reasons it is not proper to publish under one's name. My suggestion would be: write them first and get them out afterwards in one form or another.

I am sending you enclosed a copy of the "Acceptance Bulletin", in which you will find an editorial on "The Dangers of Muddle-Headed Thinking", written by the "muddle-headed" writer of this letter. The thoughts expressed are common place to you and me, but unfortunately not to the average banker, politician and economist, and I think it is our duty to drive these truths home whenever we can.

The object of these lines is to give you a good bit of news, which is, that I learn from men, who seem to know what they are talking about, that the new member of the Federal Reserve Board from Memphis is an excellent choice.

He appears to be an independent, courageous fellow, who has had experience as a farmer, banker and successful re-organizer of an important dry goods business. He is a man of independent means, 6 ft.4 long, telling good stories, and from all I hear, I think, he will add a good deal of force to the Board, and, God knows, that is needed!

I hear also that Mr. Dawes has made his first appearance and is making a good impression. I am sorry to see Mitchell go; because he was a man who was always seeking advice, and he was a careful chap and, after all, a trained banker! If he had 100% brains, however, he has been extremely successful in hiding the evidence from me. When writing his epitaph, I should say that his qualities of the "heart" were strongly outweighing those of his "mind", which is very lovable and attractive, but not always conducive to high efficiency in office.

I am curious to see what is "boiling" just now in Europe. A new reparation offer is probably coming; but I expect that it will be turned down once more, and that the negotiations will ultimately end in enforcing some new settlement once more in disregard of economic possibilities; and then what?

We had an interesting dinner at which Mr. F. C. Goodenough stated his views in the unbiased and gentleman-like way which characterizes British bankers. What a lot we can

learn from them! Lord Robert Cecil also made a great hit by the moderate way of presenting and arguing his case. How clever they are! Bernhard Shaw says quite correctly: "When an Englishman wants anything, he makes a religion of it and then does not let go till he succeeds". But they have such a wonderfully effective way of hiding their passion!

This is enough philosophy for today. I am just gossiping in order to chat with you. Pierre Jay and Gov. Morris, who were present at the Goodenough dinner, greatly helped in the discussion, also Houston and Leffingwell. All the same I missed you! *Mina sends love.*

With best wishes,

Always yours,

Queller?

Hon. Benjamin Strong,
Governor, Federal Reserve Bank,
New York.

6
May 8, 1923.

Dear Mr. Gilbert:

Mr. Case has suggested that I send you a copy of the letter I wrote to Governor Harding with regard to the Havana discussion.

I take much pleasure in sending you herewith:

- (1) Copy of my letter to Harding.
- (2) Copy of my own report to Mr. McAdoo, to the Federal Reserve Board, dated October 4th, 1915.
- (3) Copy of the sub-Committee report to the Federal Reserve Board with regard to the McAdoo-Wilson plan of opening agencies of the Federal Reserve Banks in South America. This report was signed at the time by Mr. Delano, Mr. Harding, and myself.

May I ask you kindly to return the latter after you have read it?

I need not add anything to what I have said in my letter to Harding. I think the Board is about to commit a stupendous blunder by permitting (in order to please the State Department) the Federal Reserve System to extend its

operations in its own name into foreign countries. I should think that it had troubles enough at home! Would it not be possible to delay decision until May 21st, when the Federal Advisory Council will meet in Washington, and when a matter of such importance might well be discussed with it?

With kindest regards,

Always sincerely yours,

Hon. S. P. Gilbert,
Undersecretary of the Treasury,
Washington, D. C.

PMW.N
Encls.

RECOMMENDATIONS OF THE FEDERAL ADVISORY
COUNCIL TO THE FEDERAL RESERVE BOARD
May 21, 1923.

- - - - -

RECOMMENDATION NO. 1.

The Federal Advisory Council believes that all the services inquired about by the Federal Reserve Board in its letter of May 3, 1923, enclosing copy of "Memorandum for Governors' Conference, X-3676", should be continued, except that the Council holds to the opinion that the service rendered in the free collection of non-cash items, both city and country, should be reduced. The free collection of coupons, however, should be continued. The Council understands that this question is now being studied by a special committee of Governors appointed by the Board.

RECOMMENDATION NO. 2.

The Federal Reserve Board has submitted to the Federal Advisory Council a copy of its resolution in tentative form authorizing the Federal Reserve Bank of Boston to establish an agency in Havana, Cuba, and specifying the terms and conditions under which such an agency should operate. The Board has asked the Federal Advisory Council to express its views particularly on the question whether the restrictions embodied under "number (1)" of the resolution are far-reaching enough to insure safety; and on the other hand, whether in the opinion of the Council these restrictions are so far-reaching that they might prevent the attainment of the objects of the establishment of the agency--the outstanding objects being, as members of the Board have explained to the Council, the so-called stabilization of the Cuban currency and banking situation, and the furnishing of a continuous supply of clean money.

A careful examination of the resolution leads the Council to the view that the limitations are not stricter than the circumstances require. The stupendous losses that American banks operating in Cuba have recently suffered cannot but impress the Council with the absolute necessity of placing the greatest possible safeguards upon the open market operations of Federal Reserve Banks in Cuba. If these bills are to be bought by the agency before they are actually accepted by the bank on which they are drawn, it is obvious that the Board is well-advised if it stipulates that they shall be secured by shipping or other documents conveying title. Also that they should bear what the Board calls "a satisfactory bank endorsement." Without these safeguards obviously the agency would not be safe in buying these bills. With these safeguards it is doubtful, however, whether the agency will find an adequate supply of bills which are thus made eligible for purchase by it. A very large number of these bills are being drawn as so-called "dry season credits"--that is, the large sugar growing concerns are permitted

to draw on the banks granting the credit for the making of the crop in advance of the grinding, and during the grinding period, and the shipping documents are forthcoming in due course as soon as the raw sugar becomes available for shipment. While these bills are excellent investments for Federal Reserve Banks after they have been accepted, they are, therefore, not available for purchase by the foreign agency in the foreign country where they are drawn. Another difficulty arises when we reach the point of defining what is a "satisfactory bank endorsement." If we were restricting this definition so as to include only member banks, there would be only two banks available for such endorsement for the agency, and this would give them a position of preference. On the other hand, it will be very difficult for the agency to discriminate and to refuse the endorsement of local banks or the Canadian banks. The fact remains, however, that the Federal Reserve Bank is in no position to examine these Canadian or local banks in a similar manner as it can secure statements and examinations of American endorsing or accepting institutions. There have been quite a number of important Cuban banks that have gone into receivers hands, and one of the important Canadian branch banks became heavily involved only about a year ago. Moreover, it should not be overlooked that some of the large sugar estates are practically owned, voluntarily or involuntarily, by banks and banking firms and that in such cases the bank endorsement is not quite as independent a guarantee as it would appear. If the agency would be very careful in selecting the names that it would consider as satisfactory endorsements, and in keeping the amount that it would take of each name within very conservative limits, it would soon be charged with giving a position of preference to American branch banks. It is hard to conceive, however, how such a development could be avoided. Moreover, the supply of these bills will be forthcoming only during certain seasons of the year. The operations of the agency will, therefore, not be continuous, but only seasonal. On the whole, the Council cannot escape the conclusion that on this of-necessity restricted scope a basis cannot be found which would prove satisfactory to the Cuban banks or secure any position of continuous effective influence for the agency.

What has been said about power to purchase acceptances applies to a certain degree also to power given to the agency to buy and sell cable transfers. This, too, would be only a sporadic business, and there is grave doubt whether the agency would be able to secure the bulk of this business as long as it could not buy the bulk of the long bills which would be offered in the market, and as long, therefore, as a great many of the sellers of these bills are more likely to send their remittances to some New York, Philadelphia or Boston correspondent and draw against these remittances by cable. Moreover, the volume of cable transfer business to be done by the agency would be determined by its willingness to carry, itself, the expense of shipping currency. It also must be borne in mind that a bank buying or selling cable transfers would not of necessity pay in currency or receive currency. It may simply receive or make payment by transfer in the settlement at the Clearing House. It is, therefore, a mistake to assume that all these transactions would result in currency movements.

Governor Harding of the Federal Reserve Bank of Boston appeared before the Council and explained his thoughts concerning the future operations of the contemplated agency. When asked how these operations would tend to stabilize the currency he replied that Cuban currency was practically stable; and about the currency situation itself he stated that in his opinion it seemed worse than it actually was, inasmuch as there was a great deal of clean currency in Cuba, but this was held back by the banks and the people while the unclean currency was put into circulation. He said that the total amount of objectionably soiled currency in circulation was estimated at about ten million dollars.

While the Council is in full sympathy with the ends that the Board is trying to attain, it believes that the plan as now contemplated would not prove successful in actual operation and that what the Board desires to achieve can and should be accomplished by other and simpler means which would not involve the ominous step of permitting Federal Reserve Banks to establish organizations of their own in foreign countries---a step which in the opinion of the Council was not contemplated by the Act---a step for which the traditions of the important European central banks would give no precedent.

The following thoughts have suggested themselves to the Council and are herewith respectfully submitted to the Board for its consideration. It has been stated as an element of uncertainty in the Cuban banking situation that in case of runs or emergencies, the banks cannot count on obtaining an adequate supply of currency within a reasonably short time. It would seem to the Council that if provisions were made to maintain at all times an adequate currency supply at the Jacksonville Branch of the Federal Reserve Bank of Atlanta, or, if need be, at a branch to be established by it at Key West, a currency reserve could be made available for the banks in Havana in practically one night or even in a shorter time. The mere fact that such an arrangement would be announced would have a reassuring effect, and in case of need no doubt this arrangement would prove entirely sufficient. While a provision of this sort would give Cuba assurance that a sufficient volume of currency would be forthcoming, there remains the second phase of the problem, which is to provide for Cuba a constant stream of clean currency. If the Board authorized Federal Reserve Banks to appoint correspondents among the banks operating in Cuba, for which appointment the Federal Reserve Act gives them undoubted authority, it would be an easy and entirely practicable matter to have accounts of Federal Reserve Banks opened not only with the American branches but also with the leading Canadian and local banks. If such accounts were opened by Federal Reserve Banks transmitting to such Cuban banks, let us say, one hundred thousand dollars in clean currency, for which balances collateral could be required, and if at the same time arrangements were made with these correspondent banks by which the return of unfit currency to the United States would be facilitated, a simple machinery would be set up by which these balances could be continuously replenished by the remittance of clean currency, while the soiled currency

would flow back to the United States. What volume this stream of currency would assume is a matter that could be ascertained and developed on the strength of actual experience gained from month to month. If a plan of this sort would be announced, the Council has no doubt it would be most popular, because it would meet the two main requirements of the situation without subjecting the System to the charge of undue discrimination or exposing it to the danger of opening the crack of the door which might lead the Federal Reserve System to operation of its own organizations in other foreign countries. If, as these operations develop, the Boston Federal Reserve Bank, or any other Federal Reserve Bank, should feel that the general interest requires that they should buy bills in Cuba direct, instead of purchasing them after they are in the United States and properly accepted, or that they should deal in cable transfers, they are free to do so through the intermediary of their correspondents or agents, or agencies (which ever name may be preferred). The Council fails to see that these transactions would in any way promote or that they are directly related with the attainment of the end sought by the Board; viz. the creation of an adequate currency reserve, or the furnishing of a constant stream of clean circulating notes. From Governor Harding's statement, it would appear that the dealing in cable transfers and the open market operations are proposed mainly for the reason of giving the agency a legal status, which then would enable it to exercise the currency functions which are the real object to be accomplished, but for which Section 14-E does not grant any special authority.

With the question of which of the Federal Reserve banks should secure a larger or smaller share in this development, the Council has little concern, nor does the Council think that the Federal Reserve Banks among themselves should look upon this problem from the point of view of competition or of securing any special advantage for any particular district. The question must be judged from the point of view of what is best for the Federal Reserve System, best for the United States, and also in this case of what is the most advantageous method of procedure in working out the financial problems of Cuba, in which the United States has so large an interest, and for the welfare of which our country has responsibilities that it has toward no other foreign nation.

RECOMMENDATION No. 3.

Council is of the opinion that there is nothing in business and financial conditions which would occasion any change in rediscount rates at this time.

This is a copy of a memorandum which I
dictated covering this meeting, which
please destroy after perusal.

P. M. W.

FEDERAL ADVISORY COUNCIL MEETING

May 21 and 22.

Before the meeting Mr. Rue and I saw Secretary Mellon, to whom I explained in full the gravity of the step to which evidently the Federal Reserve Board was committing itself with regard to the establishment of an organization of the Boston Federal Reserve Bank in Havana. We had about a half hour's talk, the upshot of which was, that the Secretary acknowledged that he fully agreed with the point of view Mr. Rue and I had expressed; that he thought it was undesirable and dangerous for the Federal Reserve System to go into foreign countries with an organization of its own, but that the matter had come up at the Cabinet meeting, and that, unfortunately, he had not realized the importance of it, and had permitted it to slip by without taking any action; that now he felt it was too late. I tried to impress upon him that it was never too late to attempt to prevent a grave blunder from being committed, but I did not succeed in arousing him into action. Mr. Rue and I had urged him to come to the Board meeting in the afternoon, but the Secretary said that he had important meetings at that time, and it would be impossible for him to come.

At the Board meeting, Governor Crissinger informed the Council that the Board had approved an agreement between the Boston Federal Reserve Bank and the Atlanta Federal Reserve Bank, under which the Boston Bank was to open an agency office in Havana, which was to deal in cable transfers and engage in open market transactions, buying dollar acceptances secured by shipping documents, and carrying a "satisfactory bank endorsement". The currency was to be furnished by the Atlanta Bank in

accordance with ^{agreement between} the two Federal Reserve Banks, which had been ratified already by both Federal Reserve Banks. They wanted to hear from the Advisory Council whether the conditions laid down for the purchase of bankers acceptances were restrictive enough, or too restrictive, and for that purpose they had submitted a copy of the resolution.

When Mr. Rue asked the Board to state the reasons that prompted it 1) to act in such hurry, 2) why it was deemed necessary to open an agency in Cuba, 3) how it would operate, and 4) as to whether the Board was satisfied as to its legal powers in the premises, Governor Crissinger answered that the Board had taken this step after very full consideration, as to its legal powers, ^{they} had taken advice, and was confident of its position in this regard, and there was no reason why the Board should discuss the pros and cons of the proposition with the Council inasmuch as a definite action had been determined, and that the Board simply wished to discuss the question of banking detail which it had submitted to the Council. This position was also taken very emphatically by Doctor Miller.

I then read to the Board the section of the Federal Reserve Act which ^{gives} to the Advisory Council the power to address to the Board any inquiries concerning the operation of the Federal Reserve System that the Council might deem fit to address to the Board. I explained to the latter that we did not wish to be critical or destructive, but, on the contrary, we wished to be helpful and constructive, but that we could not be of assistance unless the full information to which we were entitled was given us; that we were not in the position of asking for a hearing, but requesting information to which

we were entitled. Doctor Miller then conceded that if the question were addressed to them in this manner, we were within our rights, upon which a discussion of the whole subject on broad lines ensued.

They took refuge behind the fact that information had been furnished them from the White House that it was important that the Federal Reserve System should open an agency in Cuba under its own name in order to block the plans of the Cubans now under discussion, of establishing a Central bank of their own. While the matter was in abeyance until October, it was important that action should be taken in between. General Crowder had been very emphatic upon this point, and while it was generally conceded that it would not be desirable for the Federal Reserve System to go into foreign countries, Cuba, under the Platt amendment was in a position quite unique, which justified exceptional measures. Moreover, the investment of American capital in Cuba amounted to possibly a billion dollars, and it was important for America that these investments should not be placed in jeopardy, by permitting Cuba to establish a banking system which, no doubt, would drift into the hands of politicians. As against that, we emphasized that no doubt ways and means could be found which would bring the desired result without opening the crack of the door for the Federal Reserve System to be drawn into foreign fields. It is interesting to note in this regard that Vice Governor Platt ^{stated that he} did not see in that respect why the Federal Reserve System should not go to Porto Rico, the Philippines, Panama, or other similar places.

We stated very frankly all the arguments concerning the danger of such a development, but it was apparent that we were arguing against closed minds.

After luncheon recess, Governor Harding appeared before the Council, and made an argument for the opening of the agency in Havana. His statement was long-winded, and covering in great detail all kinds of irrelevant phases of the situation. When we tried to pin him down to a definite statement as to how the agency would work under the restrictions laid down by the Board, he was evasive and entirely unconvincing. He stressed the point, that if his agency plan were blocked, the country would give it the construction that New York, having already a position of such overwhelming preponderance, was unwilling to let any other district secure this influence in Cuba, and that this would stir up a great deal of feeling all over the country. It is only fair to state that this argument was laughed out of court by the entire Council. He also stated that the thought that if the powers given to the agency by the Board were proven too restrictive that, after a while, the Board would find that it would have to enlarge them. When asked in a general way whether better results would not be achieved by having the stronger banks in Cuba act as agents of the United States banks, as distributors of United States currency, under the proper safe guards, he said that he certainly hoped that if we found his plan impracticable, we would not fail to submit an alternative plan. The Council adjourned at five, appointing me a committee of one to write a report concerning a suggestion for a practicable plan which I had submitted, and which I had discussed.

The first draft of this report was written on the erroneous assumption resulting from the statement made by Governor Harding that the agency would be permitted to buy *only* bankers acceptances endorsed

member banks, which would have given the City Bank and the First National Bank of Boston a monopoly, and would, therefore, have proved quite impracticable. While the report was being typed, I learned from Mr. Miller, with whom I was staying over night, that we were laboring under a misapprehension, and that the contract provided, as stated before, for a "satisfactory bank endorsement". I re-drew my report late in the night, and it was submitted the next morning to the Council.

While we were waiting for the typewritten copies, I availed myself of the opportunity of giving a little talk to the Council, where, the new members, Mr. James and Mr. Dawes, at my invitation being present; also the Counsel of the Board, Mr. Wyatt. In this talk I showed how Section 14E had gradually developed from suggestions I had made as early as 1907 and 1908, and I submitted a printed copy of a bill introduced in 1908 by Senator Burton, by courtesy, which contains, almost verbatim the language defining the powers of the Federal Reserve Banks to deal in bullion, and make advances thereon as it later went into the Aldrich Act, and from there into the Federal Reserve Act, and it shows also the first beginnings of Section 14E with regard to foreign correspondents and their powers, its later paraphrasing in the Aldrich Act, and its adoption almost verbatim from the Aldrich Act by the Federal Reserve Act. I believe I could bring convincing proof to my hearers as to the fact that ~~the~~ ~~intention~~ of this section ~~was~~ never intended to convey by this Act the powers for Federal Reserve Banks to go into countries with their own organization in order to do pioneer work in those countries, or to stabilize the currency of such countries, but, on the contrary,

that these powers were given in order to enable Federal Reserve Banks in other gold countries, for their own protection, to hold portfolios of foreign bills drawn on other gold countries, and to establish correspondents, or agency relations, with existing firms or banks in ^{such} other countries, who would assist the Federal Reserve Banks in collecting these foreign bills or replenishing their holdings of such foreign bills. I also pointed out that while in Section 14E, the expression occurs once "to Establish agencies", from which the Federal Reserve Board claims to be able to derive its powers, that as against that the Section contains twice the language "to appoint agencies or correspondents", which to my mind does not leave any doubt as to the original meaning of this Section.

The Council then considered my report, and adopted it with few changes, after which the joint session with the Board was taken up again, and the report was presented. I believe it is safe to say that our impression was, that our report convinced the Board that the plan proposed by it was not practicable, and that the plan proposed by us was practicable. As the debate proceeded, however, it became apparent that ~~the~~ members of the Board would be disinclined to stand behind a plan which would operate through the existing banks, the point of view of those members being, even, though they did not express it quite frankly, that a plan which would put the Federal Reserve System in a position of competition with the existing commercial banks of Cuba would be safer for them to back than one which might subject them to the charge, that they were helping through their plan, the commercial banks operating in Cuba, particularly as only two of our largest banks for the time being at

least, would be the ones to profit from such a course; that by doing so we were securing the good will of the Canadian banks and the local Cuban banks, which all would profit equally, and which would cooperate in distributing the currency, did not carry sufficient weight to break down that point of view.

The Council adjourned after lunching with the Board, at which, mainly, general conditions were discussed with no definite indication as to what the conclusions of the Board would be, and whether they would act promptly or delay, and seek further advice.

While going home, it occurred to me on the train, that possibly a way out might be found by suggesting to the Cuban Clearing House banks (eight in number) to organize a small bank of their own, which under the joint responsibility of these eight Clearing House banks, would act as the agency of the Federal Reserve Bank of Boston, or any other Federal Reserve Bank that wished to make it its agency. The Federal Reserve Banks could then open an account with this new bank to be organized, by shipping currency to it, and the new bank would then deposit its funds, or rather its currency, with the Clearing House banks. The currency would be paid out by them, and thus get into circulation, while in return for the balance which the agency would maintain with them, these Clearing House banks would cooperate in turning back to the agency soiled currency, which would ship it home, and re-establish its balances by new currency, which it would receive in return. This, to my mind, would solve the problem of the Board. It could put all the prestige behind this agency which would be necessary to block the Cuban Central banks. It would secure the good will of the Clearing House banks, and it would

open the channel for a constant stream of new currency into Cuba, while a reserve supply could be kept either with the agency, or with the branch at Jacksonville, from where it could be shipped within the shortest time in case of need. It would secure all these results without putting the Federal Reserve System into foreign countries with organizations of its own. The power to deal in cable transfers might be given to the agency; also the power to buy acceptances in case of emergency, but I do not believe it would be necessary for these powers to be availed of in order to solve the currency circulation question or the currency reserve question, which are, after all, the whole problem that the Board is trying to solve. I wrote these suggestions to Doctor Miller immediately upon my return, but am somewhat skeptical as to the results.

PMW.N

May 25, 1923

Confidential.

May 3, 1923.

Dear Harding:

I am sorry that our views evidently differ with regard to your Cuban plans. Our talk over the telephone yesterday brought back to my mind the very lively discussions we had about this topic in September, 1915. I pulled out of my old files some drafts of reports which we prepared during those days. You will, of course, recall that in September, 1915 Mr. McAdoo wrote to President Wilson, suggesting that Federal Reserve Banks establish agencies in South American countries, his thought in those days being, that the Federal Reserve Banks could render services in those countries which American private capital was not willing or able to render. You remember, no doubt, that the Board appointed a committee consisting of Delano, yourself, and myself, and that we prepared a report which took issue in the most scathing terms with Mr. McAdoo and the President, who had meanwhile endorsed Mr. McAdoo's scheme. You will also recall the unanimous support that the press gave us in our fight to keep the Federal Reserve System within its proper bounds. Before McAdoo published his letter, and before our committee wrote its report, I had been invited by the Board to write a report for McAdoo, which was in his hands before he published the President's letter. I find in my papers a copy of this report, and I am sending you a copy, because as I did then, I also want to insist today, that the expression that the Federal Reserve Banks might appoint correspondents or agencies, in no way was meant to convey the power to establish what, in fact, would be branches of their own in foreign countries. I believe I may speak with authority, at least as to the intent of the law, because as I stated in that memorandum, it was I who

PRINCIPLE OF ESTABLISHING A DIRECT AGENCY

4. We are opposed to the principle of the establishment of a direct agency of a Federal reserve bank in Cuba if any other means can be found of accomplishing the desired results;

- (a) Because it renders some of our assets subject to the laws and the courts of a foreign country.
- (b) Because of the expense involved in an undertaking which is not the responsibility of the Federal Reserve System.
- (c) Because it creates a precedent for the establishment of direct agencies elsewhere.
- (d) Because it raises the question of the responsibility of a Federal reserve bank to redeem in a foreign country in gold or lawful money any or all Federal Reserve notes that may happen to circulate in that country. The law provides that any Federal Reserve note (regardless of the bank of issue) may be redeemed in gold or lawful money at any Federal Reserve Bank, and a foreign agency would in all probability be considered the Reserve Bank in law, just as much as branches in this country are. Consequently if the present application is approved and the Federal Reserve Bank of Boston actually opens its own office or agency in Cuba might it not be expected as a matter of law "to redeem in gold or lawful money" all of the Federal Reserve notes now circulating in Cuba, estimated to be well in excess of \$100,000,000? As a practical matter it would of course not be feasible for a small agency always to be prepared for redemption on such a large scale.

ase for us with their guaranty prime bills in their markets, and likewise, on order, we will purchase for them with our guaranty prime bills in our markets. In each of these agreements all other Federal reserve banks, in accordance with Section 14-E, have been invited to participate and have done so.

We are opposed generally to the idea that a Federal reserve bank should conduct a foreign exchange business in a foreign country merely for the profit involved. We are opposed specifically to the idea that a Federal reserve bank should conduct a foreign exchange business in Cuba merely for the profit involved:

- (a) Because there is no important international credit movement between Cuba and the United States to be stabilized, and if we are correctly advised, (except in times of crisis) the fluctuations in exchange are limited to the cost of shipping currency to or from the United States, say $1/8$ or 1%.
- (b) Because such business could be done only in active competition with member and other banks with ample resources, now engaged in it,
- (c) Because of the risk involved,
- (d) Because the paper or the contracts purchasee would not have the number of names equivalent to those to which in the United States we restrict our open market purchases of bills, (i. e. two banking names),
- (e) Because it is a proceeding for which we believe there is no precedent in the experience of other important banks of issue.

The application, therefore, takes the form of a proposal to establish an agency in Havana for the purpose of dealing in exchange, presumably for the following two reasons:

- (a) In order that it may comply with the provisions of Section 14-E under which such an agency may be established;
- (b) In order that by dealing in foreign exchange the considerable expense of maintaining the agency may be met.

DEALINGS IN FOREIGN EXCHANGE BY FEDERAL RESERVE BANKS

3. We have always been opposed, and we believe the Federal Reserve Board has held a similar view to the idea that a Federal reserve bank should deal in exchange in the United States:

- (a) Because the number of dealers and the supply of capital engaged in foreign exchange dealings was ample;
- (b) Because it would put the Federal reserve banks in direct competition with member banks in all parts of the country who have highly developed exchange departments;
- (c) Because of the risks involved.

With respect to dealings in foreign exchange by Federal reserve banks in foreign countries, it has been our belief that Section 14-E intended to provide not for the establishment of independent agencies in foreign countries but for the appointment of banks in foreign countries as correspondents and agents of Federal reserve banks. Through these agencies, the reserve banks, when such a course seemed desirable, could purchase bills in foreign countries for the purpose of assisting in the stabilization of international gold movements. We have, therefore, with the approval of the Board, entered into agency agreements with a number of foreign banks of issue whereby on order they will purch-

1

WHEREAS, the Federal Reserve Bank of Boston has petitioned the Federal Reserve Board for authority to establish an agency in Havana, Cuba, under the provisions of Section 14(e) of the Federal Reserve Act:

BE IT RESOLVED BY THE FEDERAL RESERVE BOARD, That said petition is hereby granted on the following terms and conditions:

(1) The Federal Reserve Bank of Boston is authorized through such agency to buy, sell and collect ^{or} bills of exchange drawn on, and under credits granted by, banks or bankers } prime bankers' acceptances } payable in dollars, which arise out of actual import or export transactions ~~shall~~ have not more than 90 days to run, exclusive of days of grace, bear the signature of two or more responsible parties and are secured at the time of {purchase } {ACCEPTANCE} by shipping documents conveying or securing title; and to exercise such incidental powers as shall be necessary to the operation of such agency, including the power to buy and sell cable transfers.

(2) Upon the request of any other Federal reserve bank, the Federal Reserve Bank of Boston shall make arrangements whereby notes originally issued by such other Federal reserve bank shall be paid out in Cuba through such agency as hereinafter provided, such notes to be delivered at such agency in Havana by the issuing bank at its own expense; provided, however, that if, after reasonable notice, other Federal reserve banks shall fail to keep an adequate supply of their Federal reserve notes at the Havana agency, the Federal Reserve Bank of Boston, ^{may} in its discretion, pay out its own notes through such agency.

(3) Upon application of any ~~other~~ Federal reserve bank desiring to pay out its own Federal reserve notes in Cuba, the Federal Reserve Board will authorize such bank to appoint said Cuban agency as its own agent, and the Federal Reserve Bank of Boston shall acquiesce in the appointment of such agent as the agent of such other Federal reserve bank.

(4) Such agency shall not pay out on behalf of the Federal Reserve Bank of Boston any Federal reserve notes issued by other Federal reserve banks and all such notes paid out by such agency shall be paid out only on behalf of the Federal reserve bank through which they were originally issued.

(5) The establishment and operation of such agency and the exercise of all the above powers through such agency, shall be subject to such further rules and regulations as the Federal Reserve Board may prescribe from time to time.

(6) The Federal Reserve Board expressly reserves the right to revoke its consent to establish such agency and to require the discontinuance of such agency whenever in its discretion it considers it desirable to do so.

2

The Federal Reserve Bank of New York desires to present its views and the following considerations in regard to the application to the Federal Reserve Board by the Federal Reserve Bank of Boston for permission to establish an agency in Havana, Cuba, under Section 14-E of the Federal Reserve Act.

ATTITUDE OF FEDERAL RESERVE BANK OF NEW YORK

1. While for reasons set forth in this memorandum it is opposed to any Federal Reserve Bank establishing an agency in Cuba, nevertheless if the Federal Reserve Board reaches the determination that an agency of a Federal Reserve Bank should be established in Havana, the Federal Reserve Bank of New York would prefer NOT to be selected and could not therefore object to the selection of the Federal Reserve Bank of Boston or of any other Federal Reserve Bank.

PURPOSE OF APPLICATION

2. At the hearing on this subject before the Federal Reserve Board on April 30, 1923, it appeared that the application was made primarily to improve the quality of the paper money now in circulation in Cuba. It appeared also that branches of American banks in Cuba, as well as other banks operating there, might, if the agency were established, feel justified in carrying a much smaller supply of currency than at present. Our information leads us to believe that the banks would thereby save many hundreds of thousands of dollars.

It further appeared that it might be ultra vires for the Federal Reserve Board to grant an application for the establishment of an agency for currency purposes alone, since Section 14-E does not include carrying a reserve of currency, and the issuing and redeeming of currency among the purposes for which a Federal Reserve Bank may establish an agency in a foreign country.

drew that clause for Senator Aldrich, and suggested these ideas to him, and the Federal Reserve law took over this clause from the Aldrich Law practically verbatim.

When you have a branch, or an organization of your own, you needn't appoint an agent. These agencies, or correspondents, were to be foreign banks or banking firms, that were to act in that capacity, and if my memory does not fail me, the arrangements which were made with the Bank of England and the Banque de France, were called "agency agreements". The law was very careful to prescribe exactly what a Federal Reserve Bank might do, and what a branch might do, and how the currency issued by the government was to be handled by Federal Reserve agents, their assistants, etc.

Is it conceivable at all, that if the law had contemplated what, substantially, is to be a foreign branch, which is contemplated to hold large supplies of reserve currency, it willingly would have omitted any safeguards or detailed instructions as to how these foreign branches were to operate? And, moreover, is it not, therefore, a bold step, that where a Federal Reserve Bank is distinctly restricted to its own district within the United States, it should have power to open branches wherever it pleases outside of the United States? You may say that you do not contemplate opening a branch but only an agency, but when the Federal Reserve Bank in Boston has in mind to establish an office of its own, and to have officers of its own in a foreign country, which have the power to engage in open market transactions, buy checks, cable transfers, bankers' acceptances, it is to all intents and purposes a branch, and these officers must have the power to pay out currency, to receive currency, to draw checks, to make transfers, to order payments, and all kinds of other transactions which would obligate the Federal Reserve Bank in Boston.

I am a bald man, but my hair stands on end when I contemplate

what the establishment of such a principle may mean for the future of the Federal Reserve System. If the Federal Reserve Bank of Boston can go to Havana, why should not the Federal Reserve Bank of Atlanta go to Porto Rico, Dallas to Panama, San Francisco to the Philippines, and whenever any South or Central-American country might decide to use our Dollar note as a means of circulation or legal tender, the Federal Reserve System would be warranted, in that case, to open a branch, or agency, or whatever you may call the thing, - in any case a banking machine of its own in such a country. Though I am not a lawyer, I fail to see that the law provides that "agencies" have any right to issue currency. The law provides specifically for certain market operations, and there it ends. I do not want to stress that point, but I wonder if it has been sufficiently studied. Are these agencies also to redeem currency? And how?

All of these are points of principle, which you know are very sacred to me, and on which I, for one, have never been willing to compromise. That is why, very regretfully, I find myself unable to side with you, much as I would like to do so.

Now, as to the question of Cuba. - - I grant that conditions in Cuba are exceptional, and call for all the sympathy and support that we can give. My only criticism is, that in your desire to be helpful you embark upon a scheme, in which I believe you are lacking in legal authority; which, I think, involves a dangerous precedent for the future of the Federal Reserve System, which if put into operation, will sooner or later, subject the Federal Reserve System to serious criticism, and, worst of all, while it is going too far, would not be able to go far enough to be fully effective.

I understand that the contention is, that foreign banks operating in Cuba at present, have to carry an unduly large cash reserve of something like sixty per cent, in order to be prepared against runs, etc.

It is your thought, if I understand you correctly, that if a sufficient reserve of currency were to be held by the agency of the Federal Reserve Bank of Boston in Havana, in that case, these American and foreign banks, and I assume also the local banks, could release their reserve money and loan it out, and rely on their power to get currency from the agency of the Federal Reserve Bank in case of emergency. The Federal Reserve Bank agency would release this currency against the purchase of bankers' acceptances, bills secured by shipping documents, checks, or cable transfers. These bankers' acceptances and bills with shipping documents are, of course, only available at certain seasons of the year, and as soon as they are forthcoming through the regular economic processes, they generally come into the market, and are promptly disposed of. That, in case of emergency, there should be a great reserve supply of such acceptances or bills seems doubtful to me. Bills with shipping documents have to move promptly, and cannot be kept back as a secondary reserve in the hands of the Cuban banks. To buy checks on New York or Boston might easily lead to kiting and the Federal Reserve Bank agency would no doubt be careful to buy these checks only within very safe limitations. The main advantage would be, therefore, to enable some of the banks operating in Cuba by telegraphic transfer to pay cash into the Federal Reserve Bank in Boston or any other Federal Reserve Bank, for account of Boston, and to receive currency in Cuba upon confirmation received by the Boston agency in Cuba that the counter-value had been received in cash in the United States. In other words, the ability to furnish Cuba with currency would depend upon the ability of these Cuban banks or American branches operating in Cuba to provide cash in the United States. That, to my mind, resolves itself into the question of how far is the head office of, let us say, the First National Bank of Boston, or the National City Bank in New York, willing to liquidate its assets in the United States, or to redis-

count with its respective Federal Reserve Bank in order to provide currency in Cuba.

The effect of this plan would be that the Cuban branch of these two banks, or of the American Foreign Banking Corporation, or other similar banking institutions could put out its funds liberally in Cuba; that no machinery has been created, however, by which currency could be taken out against Cuban investments, but that the American investments of the American head offices would have to be liquidated or rediscounted in order to provide the currency for Cuba.

The question arises: How far would the American banks want to go in this regard? How far would it be safe for them to go, and would the willingness and ability of a few American banks to use their credit in the United States be an adequate organ to provide currency for the entire Island of Cuba? That is why I say that while I believe you are going too far in one way, you are not going far enough in the other! If the Cuban currency question is to be solved, some machinery must be developed by which some Cuban assets may be used as the basis of currency to be issued in Cuba. I know the difficulties that stand in the way of such a project, but as long as they are there, we must not fool ourselves into believing that by a small auxiliary machine, such as would be furnished under your plan, the problem can be solved. If your machine is to solve the problem, it cannot stop where you would have it begin, but it will in the end have to provide a full rediscount machinery, not only for American bankers' acceptances, and by purchase of a limited amount of cable transfers and checks, but by getting knee-deep into the Cuban business.

The question arises of course: Should that be done by the Federal Reserve Banks of the United States or by an independent organization such as originally you had in mind? I am strongly of the belief,

that the latter plan, in the long run, will be the most satisfactory, and that American capital should, and will, go into such a venture in due course. If the Federal Reserve System is to go into a scheme of this sort, I believe it should ask Congress frankly for authority to do so, but not embark upon so far reaching a scheme upon the strength of the authority of appointing "correspondents or agencies", an authority which had no such thing in mind when originally given. If you will re-read the committee report, which you signed, of January 1916, a report, by the way, which was approved by the Advisory Council, and a meeting of the Governors and Federal Reserve agents, you will find that the point was also made in those days that a mere appointment of the agencies, as McAdoo had them in mind, and as you now urge them, might not only prove inadequate, but they might at the same time interfere with the development of the independent banking organizations. If the Federal Reserve Bank of Boston went into Cuba, it would have to operate as much as it could within the limits of its powers in order to make its expenses. It would not be long before complaints would be made that the Bank was interfering with the business of the commercial banks. My own feeling is, that inasmuch as the relief to be given to Cuba under your plan would depend in the final analysis upon the operating credit, and the willingness of the commercial banks to use it, it would be better for the Federal Reserve Bank to operate through these existing banks, or such as would open branches in Cuba, and appoint them, if necessary and desirable, to act as agencies for a Federal Reserve Bank.

I understand that the National City Bank was several years ago appointed to act as agent in Cuba for the Federal Reserve Bank of New York, and if the First National Bank in Boston carries out its plan of opening a branch in Cuba, it would be perfectly logical to make it the agency of the Federal Reserve Bank in Boston. Provision might then be made whereby

currency might be delivered in Cuba through these agencies against bankers' acceptances, or purchase of bills, or cable transfers, as you contemplate, and these agencies might either be authorized to buy for account of the Federal Reserve Bank from others (I am thinking of the Canadian banks), or in case the question should arise that other American banks might open branches down there, additional agencies may be appointed so as to disarm the charge of favoritism.

In looking over the draft of the reports which we drew in those days, I find on my copy of October 10th some corrections in your own handwriting. I had written: "It may also be urged that the active appearance of the Federal Reserve Banks in this field may delay the development of American banking in the Latin-Americas for American banks contemplating entrance therein would probably prefer to postpone action and to await the development of the activities of the Federal Reserve Banks to reveal their limitations or failure". You struck out the words "to reveal their limitations or failure", and inserted instead: "letting such banks take all the risks of pioneering and to enter the field themselves after the Federal Reserve Banks had shown their inability, due to inherent and proper limitations to compete successfully with foreign banks."

While the case is not parallel, there is still a good deal of your own expressions there that would apply to the present situation.

I am writing hurriedly, and under considerable pressure, and I have devoted this hour of a very busy morning to so long a letter for other reason but to give you the evidence of my real interest in the matter, and that I am not differing with you lightly, and have, I believe, weighty reasons which, conscientiously, I cannot brush aside.

Always sincerely yours,
(Sgd.) PAUL M. WARBURG

Governor W.P.G. Harding,
Federal Reserve Bank,
Boston.

May 25th 23.

17 EAST 80TH STREET

Dear, old New

I got your two nice letters of the 17th. I found them on my return from Washington this morning. The one for Nina I read to her this afternoon and she was quite touched by your fond thoughts of her and send you her very affectionate greetings. She is getting along beautifully and will be permitted to get up for the first time in a day or two. We all were, as you wishes us to be, confident and brave trying to equal her courage. One could not help being inspired by her example.

The doctors say that her will and
pluck was a tremendous help to them
and to her.

(which I love up)
Now to your second letter. I am dictating
a memo about the conference on the
21st & 22nd, and that will give you
the high points of the story. I wish
I had the time to give you a full account
of the side-lights, or rather the side-
darks. Oh — what a miserably small
lot of men they are nowadays!

Crissinger made a bad debut; his
expression is insincere. A Jesuit and
politician. James, the new man,
struck me very favorably.

Dawes I could not size up. He may

be all right. I fear he will be to
President Harding, as Haunlin was to
Wilson & McAdoo. First impression is:
^{opportunist}
(Smooth and lack of strength & convictions.)

But that is a very superficial proposition,
subject to much checking up.

Cunningham, the focus member, was
not there. Miller is king pin, and
doing the talking in the meeting and
the whispering to Crissinger.

Mellon, charming and touchingly human;
but not in it at all. A dreamer and

Parcival. I cannot understand how he
made his success in business.

That is the back ground. Harding appears
before the Council, as both Aiken &
his substitute got cold feet. Harding
made a piteously poor impression;

When I cornered him, he tried to be
coasive, and when I tried to pin him
down, he became abusive. I had to
tell him that if he could not argue
his case without trying to impugn
my motives (against his better knowledge)
we would have to stop. Then he behaved;
but his case collapsed woefully.
We submitted a substitute plan which
is practicable, but (I am sure) not
acceptable to the Board, because it might
be construed as helpful to the banks.
They always are afraid of that. They
want to appear to compete with member
banks rather than to help them. Even
^{through the latter might}
~~if that~~ help the Board to attain its aims.
Well, my memo will give the rest of the
story. I must go to bed. My correspondence
just now is immense and the days
are too short. All good wishes, old man,
from all of us. Yours as ever
Coul.

Copy of handwritten letter

May 23rd 23.

17 East 80th Street

Dear, old Ben

I got your two nice letters of the 17th. I found them on my return from Washington this morning. The one for Nina I read to her this afternoon and she was quite touched by your fond thoughts of her and sends you her very affectionatest greetings. She is getting along beautifully and will be permitted to get up for the first time in a day or two. We ~~all were~~, as you wished us to be, confident and brave, trying to equal her courage. One could not help being inspired by her example. The doctors say that her will and pluck was a tremendous help to them and to her.

Now to your second letter (which I tore up). I am dictating a memo about the conference on the 21st + 22nd, and that will give you the high points of the story. I wish I had the time to give you a full account of the side-lights, or rather the side-darks. Oh - what a miserably small lot of men they are nowadays!

Crissinger made a bad debut; his expression is insincere. A Jesuit and politician. James, the new man, struck me very favorably.

Dawes I could not size up. He may be all right. I fear he will be to Prest. Harding, as Hamlin was to Wilson + McAdoo. First impression is: opportunist, smooth and lack of strength + convictions. But that is a very superficial prognostication, subject to much checking up. Cunningham, the former member, was not there. Miller is king-pin, and doing the talking in the meeting and the whispering to Crissinger. Mellon, charming and touchingly human; but not in it at all. A dreamer and Parcival. I cannot understand how he made his success in business.

That is the background. Harding appeared before the Council, as both Aiken + his substitute got cold feet. Harding made a pittingly poor impression; when I cornered him, he tried to be evasive, and when I tried to pin him down, he became abusive. I had to tell him that if he could not argue his case without trying to impugn my motives (against his better knowledge) we would have to stop. Then he behaved; but his case collapsed woefully. He submitted a substitute plan which is practicable, but (I am sure) not acceptable to the Board, because it might be construed as helpful to the banks. They always are afraid of that. They want to appear to compete with member banks rather than to help them. Even though the latter might help the Board to attain its aims. Well, my memo will give the rest of the story. I must go to bed. My correspondence just now is immense and the days are too short. All good wishes, old man, from all of us.

Yours as ever

[signed] Paul

17 EAST 80TH STREET

Dear old Ben,

I assume that while it is 'sweatily hot' down here, you sit in the cool mountain air and have the laugh on us — old scoundrel!

I have seen a good deal of Case & Jay and we have had our heads together about He-Cuba. They also showed me your letter and, in as much as they were writing you, I have kept off in order to avoid confusion.

The matter is now stewing. I am assured that Boston + Atlanta will not agree on a joint agency and if the Board finds that the joint agency scheme won't go through, they are likely to come back to my plan. I am waiting for that and hope my diplomacy will not miscarry. In any case I would not ~~know~~ how to do better, for the Board does not listen to reason but acts as if it were the Reparation Commission. ^{Dictates!} That seems to be Crissinger's tone anyhow. If so he is riding

for a fall. Meanwhile there will be some black eyes.

To tell you some shameful things. Traverser wants to take Union from the hospital to our country place — and to sell with the F.R. system then! She is being very well indeed.

Tanks was here and has sailed back to London.

They have big plans — rather for big, and I think they are likely either to workify them quite a bit, or

The matter is now stewing. I am anxious
that Boston & Atlanta will not agree
on a joint agency and if the Board
finds that the joint agency scheme
won't go through, they are likely to
come back to my plan. I am waiting
for that and hope my diplomacy
will not miscarry. In any case
I would not ~~blame~~ ^{blame} them to do better,
for the Board does not listen to
reason but acts as if it were
the Reparation Commission. ^{Probably}
That seems to be Criswells bone
anyhow. If so he is riding

for a fall. Meanwhile there will be some black eyes.

To tell you more cheerful things. Tomorrow
I hope to take Nina from the hospital to our
country place — out to hell with the F.H. system
then! She is doing very well indeed.

Tjarks was here and has sailed back to London.
They have big plans — rather too big, and I think
they are likely either to modify them quite a bit, or they

may bump their noses. I like Tjarks
very much and also Grims Lohrder,
and I should be sorry to see them make
a mistake. By the way, where
is that son of yours? I should like
to see him again;

Otherwise there aint no news.
I am hot and sleepy and
wish I were in Colorado.

Lots of love from the ladies;
Betty passed her first year medical
exams. Finnie will sail for
Europe in 2 weeks.

Yours faithfully
Culler.

17 EAST 80TH STREET

Dear old Ben,

I assume that while
it is 'sweatily hot' down here, you
sit in the cool mountain air and
have the laugh on us — old scoundrel!

I have seen a good deal of Case +
Jay and we have had our heads together
about He-Cuba. They also show
me your letter and, in as much as they
were writing you, I have kept off
in order to avoid confusion.

Copy of handwritten letter

17 East 80th Street

Dear old Ben,

I assume that while it is "sweatty hot" down here, you sit in the cool mountain air and have the laugh on us - old scoundrel!

I have seen a good deal of Case + Jay and we have had our heads together about the[?]-Cuba. They also showed me your letter and, inasmuch as they were writing you, I have kept off in order to avoid confusion.

The matter is now stewing. I am assured that Boston + Atlanta will not agree on a joint agency and if the Board finds that the joint agency scheme won't go through, they are likely to come back to my plan. I am waiting for that and hope my diplomacy will not miscarry. In any case I would not know how to do better, for the Board does not listen to reason but acts as if it were the Reparation Commission. Dictators! That seems to be Crissinger's tone anyhow. If so he is riding for a fall. Meanwhile there will be some black eyes.

To tell you more cheerful things. Tomorrow I hope to take Nina from the hospital to our country place + and to hell with the F. R. system then! She is going very well indeed.

Tiarks was here and has sailed back to London.

They have big plans - rather too big, and I think they are likely either to modify them quite a bit, or they may bump their noses. I like Tiarks very much and also Bruno Schroeder, and I should be sorry to see them make a mistake. By the way, where is that son of yours? I should like to see him again.

Otherwise there ain't no news.

I am hot and sleepy and wish I were in Colorado.

Lots of love from the ladies; Betsy passed her first year medical exams; Jimmy will sail for Europe in 2 weeks.

Yours mointly

[signed] Paul MW.

June 7th 23

P.A.W.

31 PINE STREET
NEW YORK

PERSONAL

June 28, 1923.

Dear Ben:

I don't just now recall whether you owe me one or I owe you one. In any case, I want to write you a little, so here goes! Let us have the good news first.

1) Nina is fine, and sends her best love. She said she was going to write to you, but that is one thing that is still pretty hard for her, so I suppose it may be a little time till she gets to it.

2) I am delighted to have Ben, Jr. come into the I. A. B., where we expect him next Monday. Nothing would give me greater satisfaction than to see him make a satisfactory career here. I had a chat with him, and found him a very much changed human being since I saw him last. He is a very attractive chap, even though he reminds me of his father, particularly when seen from the back!!! Everybody liked him, and so I hope the step that he is about to take will prove to be one that you won't have to regret. *I hope it will please you too!*
Now for the unpleasant part! - I see from the papers this morning that the Federal Reserve Board has "gone and done it". I tried my darndest to keep them from doing it! When I found that Miller was not making any headway, I

talked to him over the 'phone, and secured from him his consent to let me submit the plan to Governor Harding, which I did over the 'phone, with very unsatisfactory results. I then wrote him a letter, and sent a copy of that to Crissinger. I also wrote to Gilbert, and enclosed a letter to him, which I had meant to write to Phillips of the State Department, but which, after mature consideration, I thought it would be inadvisable for me to write, but asked Gilbert instead to take it up with the State Department. Crissinger wrote a very courteous note, and asked for more information, which I gave him. Harding wrote a long reply (rather truculent), but ended by asking for a more specific statement, which I sent him, - all of which can now go to the crematorium! In any case, I know that I have done all I could to stop them from committing this blunder, but "whom the gods wish to destroy"-they do not strike with intelligence. I am afraid the Board, as it proceeds now, is in for a lot of trouble, but that is small consolation for those of us who wish to see the F. R. System succeed. *I also talked to Charles Mitchell*

It is significant, that about two weeks ago, the First Federal Foreign Banking Association asked the Board for permission to issue debentures and make acceptances at the same time. The Board asked the Advisory Council for a report, and we immediately informed the Board that we thought such a

procedure was against all practices and traditions, and entirely undesirable. Upon inquiry, I learned today that the request of the First Federal Foreign Banking Association was granted!

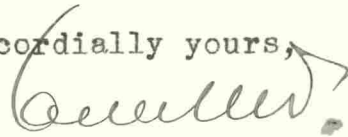
I am looking forward with a great deal of pleasure to the next Advisory Council meeting, when I shall take the liberty of cross-examining a few of these intelligent men on what grounds, and with what objects in view, they have acted. I am very much tempted to "start something" in the public press with regard to the Cuban affair. My only concern is that I think it is dangerous and ill-advised to rock the boat, which is shaky enough as it is. I have kept in close touch with Jay and Case about everything I have done in this unfortunate Cuban matter. I would send you copies of the correspondence, but it is only a "post mortem" anyhow, and hardly worth while any more. To go to Secretary Hughes in the matter, I believe, would only have irritated the Board, and made matters worse for the future. Moreover, I do not believe it would have done any good. The Secretary of State is developing an unfortunate liking for a comfortable seat on the fence, and I think it would have taken a piece of dynamite to get him down from it! That kind of business I had rather leave to people more expert in that line.

New York does not look very cheerful just now, and the people who are having the best time are the gossips.

Apparently the Stock Exchange just now looks very much like the Colony Club! I assume that Case and Jay are keeping you advised as to all this nonsense, which I hope will blow over pretty soon. For swinging from one extreme to the other "without rhyme or reason" no country does better than we.

With no more for today, and with all good wishes from all of us, I am

Always cordially yours,



Benjamin Strong, Esq.,
Cragmore Sanatorium,
Colorado Springs,
Colorado.

PMW.N

July 4th 1923.

FONTENAY
HARTSDALE, WESTCHESTER COUNTY
NEW YORK

Dear old Ben,

Ben last letters crossed;
and we, both of us, wrote about the same
subject: your boy. Since then he has
entered the J. G. W. and I saw him for
a moment in order to wish him good
luck. What you say about him is
written on his face. It is a pleasure
to look at that expression of kindness
straightforwardness and purity. So,
dear fond father of a very dear boy,
you need not be afraid that you are
blind as all fathers with regard to your

Son. I hope that he and Jimmie
will hit it off; I regret that for two
months the latter will be away in
Europe. Meanwhile Ben will find
his bearings, which is not bad at all.

The last paragraphs of your letter
made me smile - not a sarcastic,
but a very much amused smile.

How often have you said to us that
it was my evil doings that landed
you in that desperate job you have
been afflicted with these last 8 years?
How often have you said you doubted
whether it was worth while to go on
with it? (Aunt Got knows there has
been enough justification for all
you said!) But!!!!!! If a

father as fond as you, when all is said and done, thinks that
after all he would wish his son to continue where he was
some day leave his job - there must be something in it worth
while the effort! Q. o. d. and I am damned that it is so.
So don't you try that sort of stuff on me again - Thank's better now.
Ben is fine. We expect to go to St. Andrews (New Brunswick
Canada) by the end of this month for 5 to 6 weeks, and that,

I trust, will give the printing house a big reputation.

With my warmest love to the best love.

Love yours
Aunt

Son. I hope that he and Jimmie
 will hit it off; I regret that for two
 months the latter will be away in
 Europe. Meanwhile Ben will find
 his bearings, which is not bad at all.
 The last paragraph of your letter
 made me smile - not a sarcastic,
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 How often have you said to me that
 it was my evil doings that landed
 you in that desperate job you have
 been afflicted with these last 8 years?
 How often have you said you doubted
 whether it was worth while to go on
 with it? (And God knows there has
 been enough justification for all
 you said!) But!!!!!! If a

father as fond as you, when all is said and done, thinks that
 after all he would wish his son to continue where he would
 some day leave his job - there must be something in it worth
 while the effort! A. e. d. and I am damned glad it is so.
 So, don't you say that sort of stuff on me again - I know better now.
 News is fine. We expect to go to St. Andrews (New Brunswick
 Canada) by the end of this month for 5 to 6 weeks, and that
 I trust, will give the finishing touch to her recuperation.
 Both my women send you their best love.
 Ever yours
 Dad.

July 4th 1923

Fontenay
Hartsdale, Westchester County, New York

Dear old Ben,

Our last letters crossed; and we, both of us, wrote about the same subject: your boy. Since then he has entered the I. A. B. and I saw him for a moment in order to wish him good luck. What you say about him is written on his face. It is a pleasure to look at that expression of kindness straightforwardness and purity. So, dear fond father of a very dear boy, you need not be afraid that you are blind as all fathers with regard to your son. I hope that he and Jimmie will hit it off; I regret that for two months the latter will be away in Europe. Meanwhile Ben will find his bearings, which is not bad at all.

The last paragraphs of your letter made me smile - , not a sarcastic, but a very much amused smile.

How often have you said to me that it was my evil doings that landed you in that desperate job you have been afflicted with these last 8 years? How often have you said you doubted whether it was worth while to go on with it? (And God knows there has been enough justification for all you said!) But!!!!!! If a father as fond as you, when all is said and done, thinks that after all he would wish his son to continue where he would some day leave his job + there must be something in it worthwhile the effort! Q.e.d. and I am damned glad it is so. So don't you try that sort of stuff on me again - I know better now.

Nina is fine. We expect to go to St. Andrews (New Brunswick, Canada) by the end of this month for 5 to 6 weeks, and that, I trust, will give the finishing touch to her recuperation.

Both my womens send you their best love.

Ever yours

[signed] Paul

31 PINE STREET
NEW YORK

Loon Lake, Sept 3. 25. P.H.W.

I have not
seen Hamlin
for weeks;
when I saw
him last he
liked his job,
and everybody
likes him!
T do.

Dear Ben,

Wonder where you are!

We have been for 3 weeks at
St. Andrews and one week here. Friday I leave,
to go back to New York, while Betty returns from
a rough camping expedition near Goose Head
Lake to take my place as watchdog over him.
The latter is getting along beautifully. She is
better than in years. That is just the reason
why she needs a policeman. I have not
heard from you in 2000 years how you are
getting along. Drop me a line, old man!

My vacation has been much reduced,
in time and pleasure, by my reading H.

Parker Willis' book: 'The Federal Reserve System'.
I always knew the fellow was a skunk; but
he turns out to be a superskunk. For
those of us who know, the story is funny
and makes Willis look like, what he is,
a mean, petty, jealous, venomous flea,
who believes that he knew it all, & did it all,
and that anything anybody ^{ever} did must
be shown up as either not new, or no good.
But the flea bites are distributed with such
queer and unaccountable passion. Some people
like Hamlin & John Shelton (of all people!) whom
he loathes and despises he treats with
curious generosity - while you and I are,
I suppose, his main targets. That, however,
is fairly indifferent. What is more serious

is the fact that for politicians and economists
this vicious stuff will serve as a hand book,
containing authentic information, and it
may be used to bedevil the situation, which
is none too safe as it is. True enough,
only few people will work their way through
these 2000 pages; but they will find some
convenient pages to quote against the
System whenever it will be convenient. Truman
Owen, Ladd + Heflin for that!

I think the book ought to be answered;
not in 2000, but possibly 200 pages. What
say you? I wonder whether he has
any authorization from the Board to
publish the confidential memoranda;
and if he had not, and I am sure he didn't,

how could Glass write a preface to such
an outpouring of unfair indiscretions?
Glass is a sorry person anyhow. I think he
actually collaborated in this whitewash and
glorification of his own dear little self. The
point of contact between the two is their
bottomless prejudice against banks in general,
and New York bankers in particular.
The funny thing about the book is, that an
intelligent and unbiased reader, if such an animal
exists, cannot escape the conclusion that Willis
has proved the case of those who warnet the
framers of the F.R. Act of the dangers of over decentrali-
zation and of too much Government influence
in appointing the Board and making this semi-
political body, technically, the only link connecting
the banks, a mongrel body at that, half supervisory
& half managerial. But few will be intelligent
enough to see that unless we make it clear to them,
what sayest thou? I say H....! Young always
cautioned

Loon Lake, Sept. 3, 1923

Dear Ben,

Wonder where you are!

We have been for 3 weeks at St. Andrews and one week here. Friday I leave, to go back to New York, while Betsy returns from a rough camping expedition near Moose Head Lake to take my place as watchdog over Nina. The latter is getting along beautifully. She is better than in years. That is just the reason why she needs a policeman. I have not heard from you in 2000 years how you are getting along. Drop me a line, old man!

My vacation has been much reduced, in time and pleasure, by my reading H. Parker Willis' book - "The Federal Reserve System." I always knew the fellow was a skunk; but he turns out to be a superskunk. For those of us who know, the story is funny and makes Willis' book like, what he is, - a mean, petty, jealous, venomous flea, who believes that he knew it all, + did it all, and that anything anybody else ever did must be shown up as either not new, or no good. But the flea bites are distributed with such queer and unaccountable passion. Some people like Hamlin + John Skelton (of all people!) whom he loathed and despised) he treats with curious generosity - while you and I are, I suppose, his main targets. That, however, is fairly indifferent. What is more serious; is the fact that for politicians and economists this vicious stuff will serve as a hand book, containing authentic information, and it may be used to bedevil the situation, which is none too safe as it is. True enough, only few people will work their way through these 2000 pages; but they will find some convenient pages to quote against the system whenever it will be convenient. Trust Owen, Ladd + Heflin for that!

I think the book ought to be answered; not in 2000, but possibly 200 pages. What say you? I wonder whether he had any authorization from the Board to publish the confidential memoranda; and if he had not, and I am sure he didn't, how could Glass write a preface to such an outpouring of unfair indiscretions?

Glass is a sorry person anyhow. I think he actually collaborated in this white-wash and glorification of his own dear little self. The point of contact between the two is their bottomless prejudice against banks in general, and New York bankers in particular.

The funny thing about the book is, that an intelligent and unbiased reader, if such an animal exists, cannot escape the conclusion that Willis has proved the case of those who warned the framers of the F. R. Act of the dangers of ~~over~~ decentralization and of too much government influence in appointing the Board and making this semi-political body, technically, the only link connecting the banks, a mongrel body at that, half supervisory + half managerial. But few will be intelligent enough to see that unless we make it clear to them.

What sayest thou? I say H.../ Yours always
[signed] Paul MW

I have not seen Ben jr for 6 weeks; when I saw him last he liked his job, and everybody liked him! I do.

7

RECOMMENDATIONS OF THE FEDERAL ADVISORY COUNCIL TO THE
FEDERAL RESERVE BOARD

September 17, 1923.

RECOMMENDATION No. 1. The Federal Advisory Council has considered carefully the letter from the Undersecretary of the Treasury to the Governor of the Federal Reserve Board dated August 3, 1923, suggesting a certain differential between the rediscount rate for commercial paper and the open market rate for bankers' acceptances and approves of the principle, but is of the opinion that the time is not opportune to increase the existing differential rate to the extent suggested.

RECOMMENDATION No. 2. Recognizing the great importance of the development of the acceptance market and the market for short term Treasury certificates, the Federal Advisory Council recommends to the Federal Reserve Board, if possible, some legal plan be adopted whereby the Federal Reserve Banks may extend accommodation to member banks and corporations or firms dealing in acceptances and short term Treasury certificates by the purchase of these acceptances and certificates; and in the event of resale of these securities to such member banks and corporations or firms, proper compensation should be exacted for the service rendered; but these transactions should be confined to acceptances and short term Treasury certificates and should not include United States bonds or Treasury notes.

RECOMMENDATION No. 3. The Federal Advisory Council having heard Messrs. Claiborne and Adams in support of the so-called Claiborne-Adams check collection plan and the recent amendments thereto, is of the opinion that the plan is unsound, and therefore unanimously recommends its rejection by the Federal Reserve Board. The Council concurs in the essential objections to the plan as set forth in the report of the Advisory Committee of Governors of the Federal Reserve Banks to the Federal Reserve Board dated August 1, 1923.

RECOMMENDATION No. 4. The Federal Advisory Council has considered the effect of Regulation J, Series of 1923, and recommends that it be amended as follows:

1. To provide that Federal Reserve Banks shall receive at par from member banks and non-member clearing banks in their respective districts, checks drawn upon member and non-member banks that are collectible at par in acceptable funds; and shall receive at par from or for account of other Federal Reserve Banks such checks payable within its district. Collectibility at par may be established by an agreement of a drawee bank to remit at par in acceptable funds or ability of a Federal Reserve Bank to make collection at par through another member or non-member bank.

2. To provide that Federal Reserve Banks shall not receive upon deposit checks upon any non-member bank which are not collectible at par.

3. To provide that Federal Reserve Banks shall not charge exchange upon checks drawn upon a member bank deposited with a Federal Reserve Bank, which checks are drawn by, endorsed by, or which emanate from any non-member bank which does not remit at par.

CLASS OF SERVICE	SYMBOL
Telegram	
	Blue
	Nite
	N L

If none of these three symbols appears after the check (number of words) this is a telegram. Otherwise its character is indicated by the symbol appearing after the check.

WESTERN UNION TELEGRAM



CLASS OF SERVICE	SYMBOL
Telegram	
Day Letter	Blue
Night Message	Nite
Night Letter	N L

If none of these three symbols appears after the check (number of words) this is a telegram. Otherwise its character is indicated by the symbol appearing after the check.

NEWCOMB CARLTON, PRESIDENT

GEORGE W. E. ATKINS, FIRST VICE-PRESIDENT

RECEIVED AT 621 MADISON AVENUE

125PM JUL 26

60 NEWYORK NY OCT 29 1923 NET

BENJAMIN STRONG

470-PARK AVE NEWYORK NY

DELIGHTED TO KNOW YOU ARE BACK OLD SCOUT PLEASE LET

ME KNOW AS SOON AS YOU ARE READY TO SEE ME

WELCOME HOME FROM US ALL

PAUL M WARBURG

237P

31 PINE STREET
NEW YORK

October 29, 1923.

Dear Ben:

This morning's "Annalist" carries an interview, which I was requested to give, upon the subject of the present problems facing the Federal Reserve System. The interview is no more than a re-statement of views expressed by me on earlier occasions. I am venturing to send you a copy in the thought that, possibly, it might interest you to give it a casual glance. *It was a real pleasure to see you again.*

With kindest regards,

Sincerely yours,

Benjamin Strong

Benjamin Strong, Esq.,
470 Park Avenue,
City.

PMW.N

ACKNOWLEDGED 31 PINE STREET

NOV 30 1923

NEW YORK

R S

November 28, 1923.

Dear Ben:

Enclosed is a draft of my annual address to be given before the Acceptance Council, which it may amuse you to read. I was sorry we were interrupted yesterday, but I am looking forward to a continuation of our talk at an early opportunity.

Sincerely yours,

Queller

Any suggestions will be gratefully received!

Hon. Benjamin Strong,
Federal Reserve Bank,
15 Nassau Street,
New York City.

N
Encl.

This article is protected by copyright and has been removed.

The citation for the original is:

Warburg, Paul M. "Politics Menaces the Federal Reserve System." *The Annalist* (New York, NY), October 29, 1923.

31 PINE STREET
NEW YORK

December 3, 1923.

Dear Ben:

Thanks for your letter, and for having read my paper so carefully. I am glad to have your suggestions.

I know it will be hard to get Congress or the Treasury to agree to a tax exemption, but I think it is right to put the matter up to them in the manner I did in order to bring it out into the open.

I have arranged with your son that you will come and dine with us on Monday next when Mr. Traylor of Chicago will be the only other guest. I am sure you will like him, and I assume you know him. Ben Jr., unfortunately, has a swagger appointment for the Metropolitan that night, which I regret, but I hope to see him some other time.

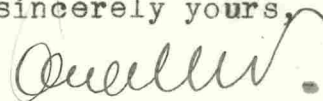
You suggested ^{in our last talk} that increased open market purchases in Certificates of Indebtedness might do some good. I am afraid it is no help. You could not buy enough to reduce the rate for Certificates, and the only consequence, therefore, would be that you would

ease the banks which, in that case, might, conceivably at least, increase their purchases in commercial paper so that the commercial paper rate might be decreased further, and the anomaly of having the commercial paper rate and the acceptance rate so close together would, therefore, be aggravated instead of being eased. On the other hand, the open market rate for acceptances would not go down as a consequence of easier money, because it is fairly well linked to the ^{level of} Certificates of Indebtedness. Unfortunately, we find ourselves in this vicious circle, which can only be broken (as I see it) when the tax exemption for Certificates of Indebtedness is removed, or if tax exemption is granted to bankers' acceptances.

I hope you will use your persuasive powers while you are in Washington to carry this message home where it will do some good.

I am looking forward to seeing you soon again, and am, with warmest regards from all of us

Always sincerely yours,



Hon. Benjamin Strong,
1718 H Street,
Washington, D. C.

PMW.N

ACKNOWLEDGED 31 PINE STREET

DEC 27 1923

NEW YORK

B. S.

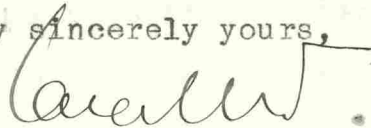
December 20, 1923.

Dear Strong,

I enclose a copy of a letter, which I have written to Mr. Winston today. If you have time to give it a "look-over", I shall be obliged. May be we can put our heads together concerning the several topics that I have dwelled upon after the Xmas rush is over.

Meanwhile, this is a good opportunity to send you all the good wishes, of which the Warburg family is full for you and your'n!

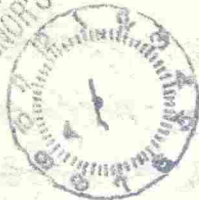
Very sincerely yours,



Hon. Benjamin Strong,
Federal Reserve Bank,
15 Nassau Street,
New York City.

PMW.H

RECEIVED BY
GOVERNOR'S OFFICE



DEC 21 1922

[Faint, mostly illegible text, possibly bleed-through from the reverse side of the page.]

RECEIVED
NEW YORK
FEDERAL RESERVE BANK OF ST. LOUIS

December 20th, 1925.

cannot be the holders of all the World's gold and become
the gold axis of the World without doing our obvious duty
Dear Mr. Winston,
in making our banking machinery function as well at least
as it lies in our power to make it.

When I had the pleasure of seeing you last in
Washington, we discussed the problem of the acceptance
market and, as you may recall, I said to you then that
either the Treasury Certificates and Notes should be
placed on a taxable basis, or acceptances should be placed
on a tax-exempt basis when held by banks.

I have since elaborated this thought in an ad-
dress, which it was my painful duty to deliver at the an-
nual meeting of the American Acceptance Council, and I take
the liberty of enclosing a copy herewith. May I ask you
kindly to read what I have said concerning this topic and
give it your very earnest and, as I hope, sympathetic con-
sideration.

Do you realize that for about \$ 500,000.- a year
you can make the American banking system a success and put
Uncle Sam on the map as the real "World Banker" with a fair-
ly perfect machine? To my mind, it is clearly our duty not
to neglect our opportunity of ~~perfecting~~ ^{perfecting} our banking organi-
zation all the more so as every month and year that passes
throws a heavier responsibility on us in this regard. We

The proposition that I have in mind is, what cannot be the holders of All the World's gold and become in slang we would call, a "hoard". The Treasury would be the gold axis of the World without doing our obvious duty really doing nothing for the above reasons and those that in making our banking machinery function as well at least I have outlined in my paper, while the benefit would be as it lies in our power to make it.

Income, but can only be held by those who are capable of visualizing the possibilities and necessities of our banking system.

standing of \$ 500,000,000.- and a discount rate of 4-1/8%,

I have not written Secretary Mellon, but the taxable interest involved would be about \$ 2,000,000.-

hoping that you will be my advocate with him. In doing This return in the hands of the banks would be subject to

so, say I ask you also to tell him what a genuine satisfaction it was for his friends to be present at the dinner

the tax of 12-1/2%, which is approximately 2.6 Million p.a. Approximately one half of all acceptances are held by the

given to him by the Pennsylvania Society the other half Federal Reserve banks; they do not pay the tax. I should

not be able to feel the profound sincerity of the assistance that you guess that between 75 - 100 Millions are held by foreign

lentured him. It was a real inspiration to see that duty fearlessly done, without any selfish thought, can command

say that more than 50% of the balance is held by savings the admiration and support of a Democracy generally supposed

banks, which are not subject to the tax. It would be conservative, therefore, to assume that not more than one fourth or

to be possible only to follow the cleatrap of the Demagogues. Sincerely yours,

one fifth of all bankers' acceptances is actually charged

with the tax. On the other hand, ^{the} tax prevents the banks

from entering the field and, thereby, destroys the effective

cooperation of, what should be, the most important factor

Assistant Secretary of the Treasury, in the acceptance market, and it prevents acceptances from

getting the lower interest level, which ^{they} should command.

ACKNOWLEDGED

31 PINE STREET
NEW YORK

-3-

DEC 27 1923

The proposition that I have in mind is, what in slang we would call, a "oinch". The Treasury would really lose nothing for the above reason and those that I have outlined in my paper, while the benefit would be immense, but can only be judged by those who are capable of visualizing the possibilities and necessities of our banking system. I enclose a copy of a letter, which I have

I have not written Secretary Mellon about this hoping that you will be my advocate with him. In doing so, may I ask you also to tell him what a genuine satisfaction it was for his friends to be present at the dinner given to him by the Pennsylvania Society the other night and to feel the profound sincerity of the oestion that was tendered him. It was a real inspiration to see that duty fearlessly done, without any selfish thought, can command the admiration and support of a Democracy generally supposed to be capable only to follow the claptrap of the Demagogues.

Sincerely yours,

Hon. Benjamin Strong,

Federal Reserve Bank,

15 Nassau Street,

Hon. Garrard B. Winston,
Assistant Secretary, of the Treasury,
Washington, D. C.

PMW.H

PMW.H

ACKNOWLEDGED

31 PINE STREET
NEW YORK

JAN - 2 1924

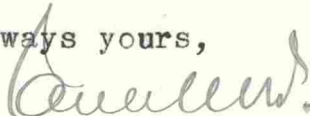
R S

December 28, 1923.

Dear Ben:

Thank you for your note. Your argument against additional tax exemptions is perfectly sound, even though the restrictions contemplated by me would make it perfectly harmless. But, then, one should "take the bull by the horn", and see to it that Treasury notes and Certificates should become subject to ~~the~~ tax. I enclose copy of a letter received from Mr. Winston, which I am sure will interest you.

Always yours,



Benjamin Strong, Esq.,
Federal Reserve Bank,
15 Nassau Street,
New York City.

PMW.N
Encl.

C O P Y

THE UNDERSECRETARY OF THE TREASURY

WASHINGTON

December 26th, 1923

Dear Mr. Warburg:

I have your letter of December 20th. I had already read your speech to the American Acceptance Council with a great deal of interest and I had already discussed this question with Mr. Mellon. As I said to you when we talked it over in Washington, it should be the policy of the Treasury to reduce the number of tax exempt securities and not to increase it. They are already the subject of much criticism. Unfortunately the statute under which Government short term certificates are issued requires exemption as to normal tax. It would not, therefore, be possible under the present law to make our Government securities wholly taxable. The Treasury may, however, consider the advisability of recommending to Congress an amendment to the law so as to leave within the discretion of the Secretary of the Treasury whether the securities may be wholly taxable or tax exempt only with respect to State taxes and the normal tax. We should like to do everything we can for the acceptance market, but I am afraid it would put the Treasury in a false light to recommend tax exemption.

Very truly yours,

(Signed) GARRARD B. WINSTON
UNDER SECRETARY OF THE TREASURY

31 PINE STREET
NEW YORK

January 30, 1924.

ACKNOWLEDGED

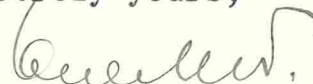
JAN 31 1924

R S

Dear Ben:

As a member of General Henry T. Allen's Committee, I have been asked to sponsor their plea with a certain number of "prospects", and your name has fallen into my lap. I venture, therefore, to enclose copy of an abstract of Doctor Emerson's report, which speaks for itself. I also enclose a card which please be good enough to return to me with whatever figure (large or small) that you may feel like inserting. It is needless to add that my heart is very much in this matter because I know how terrible the suffering is over there. None the less, be sure that whatever way you may act upon the suggestion, I shall fully understand and respect your conclusions. I know how overburdened all of us are along these lines.

Sincerely yours,



Benjamin Strong, Esq.,

15 Nassau Street,

New York City.

A FEW TYPICAL EXCERPTS from the reports of Dr. Haven Emerson, of Columbia University, and Prof. Ernest M. Patterson, of the University of Pennsylvania, who, as unbiased, scientific observers, were sent to Germany to ascertain the FACTS OF THE SITUATION for the information of

THE AMERICAN COMMITTEE FOR
THE RELIEF OF GERMAN CHILDREN

MAJOR GENERAL HENRY T. ALLEN

NATIONAL CHAIRMAN

IRVING T. BUSH

CITY CHAIRMAN

HARVEY D. GIBSON

TREASURER



19 WEST FORTY-FOURTH STREET
NEW YORK CITY

EXTRACTS FROM REPORT OF DR. HAVEN EMERSON

(Columbia University)

⁶⁶IT was unfortunate for my purposes that all the schools were closed during my stay in Germany, an extra ten days of vacation having been decided upon because of the shortage of coal to heat the schools.

"Cold weather, with much snow and wind and little sun, prevailed throughout the period of my visit. Public officers were warned in all instances that only conservative and well authenticated facts were acceptable.

"A reduction of the birth rate from about 30 per 1,000 to 15 per 1,000 has not been accompanied by an improvement in the condition of the expectant mother, for there is less prenatal care, an increase in the mortality from childbed fever, an increase in stillbirths, and a great diminution in the proportion of mothers who can nurse their babies. . . . Breast milk is found to be reduced to about one-half the usual daily amount. *One in ten of the babies born alive in Berlin is given over to an institution to raise because of poverty of the family.*

"After the early weaning, now so common, the shortage of cow's milk and its expense causes a marked arrest in development and defect in quality, as well as in quantity of tissue growth. Beginning with six months and even younger, babies are found in the hospitals in considerable numbers with marked pulmonary tuberculosis. It is not uncommon to find 15 per cent and even 25 per cent of children under two years of age in hospitals, suffering from lung tuberculosis. This has been a development of the past twelve months.

Increase in Tuberculosis

"Five of the municipal preventoria in Berlin with four hundred beds, for pre-tuberculosis of suspect children from tuberculosis families have been closed within the year for lack of funds.

"In Dresden, at a prominent children's hospital, prior to 1915 they had no lung tuberculosis in children under three years; today twenty-five of the one hundred and twenty beds are occupied by children of this age.

"The runabout child (2-5 years) is less commonly sturdy than the infant under one, partly because no child over four, unless in hospital, and in most places no child over two gets any fresh cow's milk, and partly because of lack of suitable shoes and outer clothing.

"From infancy to school age marked rickets is so common, anemia, listlessness, poor muscular bone, sunken eyes and emaciation are so generally seen that one loses a sense of proportion and is inclined to underestimate the extent of depreciation of vitality which is almost everywhere obvious among the children of the wage earners, the lesser public officials and the 20 to 40 per cent of the adult population who are unemployed.

"Lack of breakfast and often of lunch, lack of shoes, or worn out or felt shoes, lack of stockings, underclothes, winter coats are all so common that the undersized, pallid, listless, thin children seem but the natural result. The weakness of children from hunger is a common cause of fainting, dizziness, headache and inability to study. *Up to 20 per cent of children applying at six years for admission to school have to be sent home as unfit to attend.* . . . From 1 to 2.5 per cent of school children in some districts are found to have open pulmonary tuberculosis.

Food, Clothing, Housing

"The best single index, and probably the most reliable material measure of the adequacy of children's nutrition in a modern municipality is the daily per capita consumption of milk. The cows, fewer in number than before the war, produce much less milk and of a lower butterfat content and presumably lower also in other vitamin elements. When, therefore, we find a reduction to one-sixth and one-eighth commonly, and in some instances to one-twentieth of the milk formerly taken daily, and of this sometimes one-sixth not sold because of the rise in price, we can picture the results upon children's growth and health. Few, if any, children over four have had milk in the cities since 1914, unless they were sick in hospitals.

"The use of milk in most American cities amounts to about one-half pint a day for each person. Now, the people of Berlin have about six-hundredths of a pint apiece, in Cologne .1 of a pint.

"Three children in a bed and five or six persons in a bedroom are common in city and country. I found a grandmother, mother and child of three all sleeping in the same bed *and all with tuberculosis.* Premises formerly forbidden as unfit for human habitation are now crowded. *The children suffer most from these conditions.*

"The most that can be given to sustain life for a man, wife and two children under fourteen years of age is 10.5 gold marks a week, or about \$2.50, an amount, even when considering the further concessions as to rent, bread, public kitchens, etc., which barely permits survival. . . . It must be borne in mind that the period of infection with tuberculosis precedes death by a considerable period.

"During the latter part of 1922, and to a constantly increasing degree through 1923, a change had occurred, with a rapidity quite explicable in view of the conditions which had prevailed from 1914-1919, which threatens to become a widespread catastrophe, at least for the children of Germany.

"The harvest of death has only begun. Starvation and disease are whetting the Scythe.

"We, in the midst of plenty, will see our own problems in a fairer light if we cast off our blanket of aloofness. Nothing but an increase of friendliness can come to our children from a transfer of material wealth across the Atlantic as an investment in other children's lives."



PROF. PATTERSON (left) and DR. EMERSON
*Aboard the Majestic on their departure for Germany to study
famine conditions.*

EXTRACTS FROM REPORT OF PROF. ERNEST M. PATTERSON

(University of Pennsylvania)

⁶⁶ON such a brief trip, personal observations and conclusions based on them are ordinarily unsatisfactory. In this instance, however, a few statements are appropriate because the writer made every attempt to observe accurately and, still more, because of the close correspondence between his observations and the evidence gathered in other ways.

"First to attract the attention was the very small movement of freight. Our route was followed chiefly in the daytime, to gain as many direct impressions as possible. The writer saw no more than a dozen engines moving freight cars, and of these one-half or more were merely shifting cars. Only about a half dozen were trains of cars definitely moving from one town to another. There were hundreds and hundreds of cars on sidings and in yards, most of them empty. Engines were cold and tracks rusty.

"Only a few of the loaded freight cars were filled with coal. In Berlin I saw only an occasional wagon delivering coal in the streets, and it was usually brown coal whose heating quality is inferior. As I travelled through the towns, very few houses had smoke rising from their chimneys. . . .

"Of the many factory chimneys only a few were smoking, and there were many evidences of extensive unemployment. In Cologne I witnessed a demonstration by a large mob of unemployed, a demonstration that for a time threatened to result in rioting and looting. In short, evidence of unemployment appeared everywhere.

A Change for the Worse

"I was in Germany in June, 1922, when business was still active. The most superficial observation today shows a change for the worse, a conclusion that cannot be escaped when other evidence is examined. Unless one is to distrust his own senses and refuse to accept the testimony not only of German officials and business men, but that of the highly capable English and American experts in Germany—*unless one is to discard all forms of evidence upon which investigators are accustomed to rely, he must conclude that the distress is acute in the extreme.* . . .

"Dr. Brauns, Minister of Labor for the Reich, stated on December 20th:

"Several municipalities have reported that the number of destitutes is more than half the population. The Bureau of Statistics in Essen states that out of 251,000 inhabitants in November, 55.5 per cent was entirely dependent, whereas in 1913 the percentage was 1.5 per cent. . . . In several industrial centers in the occupied zone, 80 per cent of the population is entirely dependent on public support."

"In Berlin the D. Z. A. (Deutscher Zentralausschuss für die Auslandshilfe) informed me that in the week of November 27th to December 8th they served 545,017 meals per day. What fraction of the need they were then meeting they were not sure, though one of their officials put it as low as 20 to 25 per cent.

Homes for Infants Closed

"Dr. Brauns further stated:

"Hospitals, homes and asylums of every description are taxed to the utmost, but are greatly handicapped for funds. . . . Worthy, respectable institutions have to close their doors. Among those that can no longer continue are homes for infants, kindergartens, dispensaries for mothers and babies. . . . The number of beds in the remaining institutions is only 35 per cent of the original capacity. . . ."

"He also stated that on December 1st, in the unoccupied region, there were 1,447,000 unemployed and 1,825,000 part-time workers. For the occupied area, he gave 2,000,000 as merely an approximate estimate for the unemployed. . . .

"Allowances for the totally unemployed vary in different sections of Germany and with different classes of workers. The highest amount paid, however, for a worker with a family is 1.56 marks (39 cents) per day. This sum is being granted at a time when a *loaf of bread costs 18 cents.*

The Throes of a Crisis

"If inflation should be resumed and prices again rise, it is entirely probable that the mental strain would again appear, with consequences that cannot be forecast. . . .

"How serious and prolonged the crisis and the ensuing depression will be no one knows. Even were there no other problems to be faced, if the reparations question were settled and all other difficulties adjusted, conditions would be serious. . . . *But there is practically no reason for expecting early relief for the unoccupied parts of the country. All Germany is in the throes of a crisis which will probably be prolonged.*

EXECUTIVE COMMITTEE

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Make Checks Payable to

HARVEY D. GIBSON, TREASURER
19 West Forty-fourth Street,
New York City.

31 PINE STREET
NEW YORK

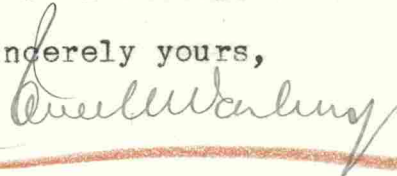
February 1st, 1924.

Dear Ben,

Thank you for your letter and for your prompt and generous response. I appreciate it very sincerely, and I am sure all my fellow-members of the Committee will.

I am enthusiastic about your plan to incarcerate some of the "dumb heads" around the world. If you start the Syndicate, don't forget me as an underwriter!

Sincerely yours,

A handwritten signature in cursive script, which appears to be "Paul M. Warburg", is written over a red horizontal line.

Hon. Benjamin Strong,
Governor, Federal Reserve Bank of New York,
15 Nassau Street, City.

PMW.H

Dear Ben, Lucie phoning
the custodian came and I attach my
reply. I think I better wait a day
now before calling Brent D. G., who is
in Paris

Yours from
Lanell

copy

MESSAGE RECEIVED

DATE March 10, 1924.

From M. M. WARBURG & COMPANY HAMBURG GERMANY

4010

NEGOTIATIONS ORGANIZATION KREDIT DISCONT BANK BEGUN

CAPITAL £ 10,000,000 SUBSCRIBERS £ 5,000,000 REICHSBANK

BERLIN £ 5,000,000 GERMAN BANKS STOP

BANKS ENTITLED TO ISSUE £ 5,000,000 NOTES FURTHERMORE

REDISCOUNTING CREDITS OPENED LONDON FOR £ 10,000,000

STOP

PROFIT 8% TO SHAREHOLDERS SURPLUS 50% SHAREHOLDERS 50%

GOVERNMENT DIVIDENDS FREE OF TAXES STOP

LATER ISSUE CONTEMPLATED IN GERMANY ENGLAND THROUGH

BANK OF ENGLAND NETHERLANDS THROUGH NEDERLANDSCHE BANK

STOP

ORGANIZATION SUBJECT TO AUTHORIZATION BY REICHSTAG STOP

ARE YOU INTERESTED SUB-PARTICIPATION

PLEASE REPLY BY WIRE

For MR. P. M. WARBURG

copy

March 10, 1924.

Warmax Hamburg

Yours 4010 participation only interesting if official standing thereby
secured and substantial part of business on parity with London believe
mistake for Creditbank base its operations on fluctuating sterling
instead stable dollar Believe that Bank's foundation and operation
at least in part ought to be sought here believe possible organizing
some credit syndicate here if proper opportunity is given us for
negotiation Please communicate this Schacht Should I cable
him direct

F. Warburg

31 PINE STREET
NEW YORK

FILING DEPT
March 14, 1924.
FEDERAL RESERVE BANK
MAR 18 1924
FIVE B/L

Dear Ben:

The enclosed came in this morning from Chicago, and may interest you. Please return it after you have read it. I should like to discuss the subject matter of the letter with you before answering Mr. Washburne.

Sincerely yours,

I gave this to Mr. Jay.

*To be answered verbally
PS-*

Benjamin Strong, Esq.,
Federal Reserve Bank,
15 Nassau Street,
New York City.

3/17/24

Mr. Warburg gave me this on Friday and I turned it over to Mr. Kenzel.

P. J.

PMW.N

Encl.

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MAR 15 1907



RECEIVED BY
GOVERNORS' SECY

Promise free!
Dear Ben,

P.M. Warburg
31 PINE STREET
NEW YORK

That's great news! Whatever may take you across the ocean, may success be yours! Come back safe and round - and soon.

I enclose a copy of my letter to Owen Young, so that you may know exactly what I wrote.

Sorry to hear about your boy's troubles.

I shall keep an eye on him and trust that the dear fellow will soon be once

More as cheerful & gay as ever.
Good luck, old man from all of us

Yours ever
Auel.

Ucin is still in a pretty miserable condition, but the temperature is down & I hope she will be out of the woods soon.

Do you know that Dr. Vissering's wife died?

21, 1924. He said
for England, it
could not be
our prompt reply
early responsive
own eyes what
lies are. But
he just how as
see which it is
t is for a baby,

facilities. Baron Bruno Schroeder from London, who is here
 just now, confirmed that in his talk with me yesterday. He said
 that "if the Pound Sterling was good enough for England, it
 was good enough for Germany, and that the Germans could not af-
 ford the luxury of having Dollar exchange."

March 21, 1924.

Dear Mr. Young:

I am greatly indebted to you for your prompt reply
 to my cable. Its last words struck a particularly responsive
 chord. I wish I could go over and see with my own eyes what
 the problem really is, and what the possibilities are. Un-
 fortunately, however, that is impossible for me just now as
 Mrs. Warburg is down with the measles, a disease which it is
 not as easy for a grand-mother to overcome as it is for a baby,
 and her condition has given me quite some concern during these
 last few weeks.

It is difficult for me to attempt to express my
 thoughts concerning the problem in hand, or, rather, not in
 hand. The opportunity that the present emergency in Europe
 offers is unique, and I don't believe it will ever be again
 within as easy a grasp of the United States as it is today.
 It is the question of whether the Dollar shall permanently re-
 tain a predominant position, or whether we are willing to sur-
 render financial mastery to the Pound Sterling for good and
 all! England realizes that, and that is why the Bank of Eng-
 land is willing to go to a considerable length in granting
 facilities just in the same manner as the Bank of England has done.

facilities. Baron Bruno Schroeder from London, who is here just now, confirmed that in his talk with me yesterday. He said that " if the Pound Sterling was good enough for England, it was good enough for Germany, and that the Germans could not afford the luxury of having Dollar exchange."

That statement is, of course, fallacious, because it is more of a luxury to have a fluctuating pivot than to have a stable one. Germany, in accepting ^{the} Sterling as its financial pivot, would place ^{her} itself under a handicap, while if she could base her financial system on the Dollar, it would be easier for her in the future to engage in world business, and to compete with England more effectively. The main weight, however, is not to be laid on the financial argument of Baron Schroeder, but that for her own ends, political and economic, England has a larger object at stake than we, and that, furthermore, we do not realize over here what a far reaching question is involved for us in the matter. Personally, I can envisage, that if through the establishment of gold exchange standards in Europe, many countries carry their reserves over here, and invest them in bankers acceptances and balances, the result of that would be the development of a wide open discount market, such as we have been trying in vain for five years to establish over here. However, there must be a give and take, and in order to match England's contribution, we would have to be prepared to grant rediscount facilities just in the same manner as the Bank of England has done.

This is not as difficult as it would appear at the outset. I can imagine that a strong syndicate of leading banks and bankers could be formed here which would agree to rediscount a substantial number of millions of dollars ~~from~~ the note issuing bank of Germany, provided this paper complies with the requirements of the Federal Reserve Act, i. e. that it should be of a commercial character. It would probably be two name paper, representing the seller and the buyer of goods, endorsed by a ^{German} bank or bankers, and then again endorsed by the German note issuing institution. This paper, if properly endorsed by American banks or by the banking syndicate, could be rediscounted at the Federal Reserve Bank provided it appealed to it and ^{provided} the Board would be willing to amend its respective regulation.

If that proposition came from your Committee in connection with a general scheme of straightening out in Europe, I can hardly imagine that the Federal Reserve Board would be unwilling to play along, and that the leading banks of the United States would be unwilling to do their share where it might be a public duty, and, at the same time, a paying and safe business.

I hesitate to write this sketchy letter about this at random, not knowing at all what the actual requirements of the situation over there are. I hope you will pardon the intrusion!

I am venturing to send you these lines simply for the purpose of ~~presenting~~ ^{relaying} these ideas before you for what they may be worth, thinking that, possibly, they may cover some phases which have not yet been laid before you. Needless to say, that every thinking human being is following with keen attention the work of your Committee, and the general feeling and expectation is that when the curtain rises there may be every reason to congratulate you upon what you have achieved. The possibilities for good are immense, and we all hope that France will be well aware of the possibilities for evil that she may precipitate if she should prove too stubborn and too exacting.

With kindest regards, and very best wishes, I am

Always sincerely yours,

Owen D. Young, Esq.,
Ritz-Carlton Hotel,
Paris, France.

PMW.N

P. M. Warburg

31 PINE STREET
NEW YORK

March 28, 1924.

Dear Ben:

I hope that you safely reached the shores of the old country, and that you are well, and are having a bully time!

Your "Ben" left a few days ago for a six weeks holiday. Everybody felt most sorry for him, and we are loathe to miss him, but everyone went out of their way to assure him that his place will be kept open for him, and that we will be delighted to see him back, hale and hearty. I did not see him myself, because I have been laid up with a nasty cold, and by the end of next week, I hope to be able to take Nina South. She is doing well, but is very weak.

The object of these lines is to send you a copy of a letter which I received this morning from Miller, to whom I had sent a copy of my letter to Owen D. Young and Vissering. His reply is most encouraging, and I thought you would be glad to see it, and, possibly, take a cue from it. Of course, I am not familiar with how far you and he discussed this whole problem, and I may be carrying coal to Newcastle, but, anyhow, I did not want

Burlington

to miss sending you the letter. I am sending it over to your Bank, assuming that your secretary will be able to catch you on the other side.

Good luck, old man, and warmest regards!

Always yours,

W. L. Miller

Benjamin Strong, Esq.,
Federal Reserve Bank,
15 Nassau Street,
City.

To be forwarded.

PMW.N
Encl.

FEDERAL RESERVE BOARD

Washington

March 27, 1924.

My dear Warburg:

I thank you very much for your two letters of March 24th.

I am glad that you enjoyed reading the Annual Report of the Board and am pleased that you think so highly of it. The point with respect to Federal Reserve discount policy during 1923, which you think might with advantage have been emphasized in the Report, is one in which I think you have perhaps read the Report hastily and not understood the Board's position. But this is a matter that we can talk about when I next see you.

I am, of course, greatly obliged to you for sending me copies of your letters to Vissering and Young. I have read them with the greatest interest. I am glad your thought is proceeding along the lines indicated in these letters. If I have rightly grasped what is in your mind and what you are aiming at, it is also what I have been thinking, and I believe a way can be found by which the Federal Reserve can perform a very important service and strengthen the position of our country in the international money market by broadening its activities.

It was mighty good to see you, if even only briefly, the other day in New York. I shall look forward to your being here at the time of the next meeting of the Federal Advisory Council, when I trust the subject of your two letters can be amplified and clarified by further discussion.

I am delighted to hear that Nina is doing well.

Always sincerely yours,

Mr. Paul M. Warburg,
31 Pine St.,
New York City.

Sgd. (A. C. Mills)

(Translation)

Ernst Warburg

THE PRESIDENT
of the
REICHSBANK-DIREKTORIUM

Berlin, S.W.19,
May 31, 1924.

Dear Mr. Warburg:

I sincerely thank you for your kind letter of the 15th inst. and take the opportunity of giving you some particulars in regard to the present conditions, although I am fully aware that you are kept informed by your brother Max of all developments in our country. I may mention that it is a special gratification for me to be in entire agreement with your brother in regard to the handling of the all-important economic questions which Germany has to solve at the present time, and this the more so, because I attach the utmost importance to his judgment. By reason of the continued political pressure from the outside to which Germany is exposed, our domestic political conditions have become very much upset in the recent elections. The turn to the extreme "right" and "left" has been very pronounced and I am much afraid that unless we find more support and assistance from abroad, and particularly in regard to the "imponderables", i.e. national sentiment, we may see very serious difficulties in our own country. It has taken far too long to assist us to a reasonable settlement of the Versailles Treaty. I confess that the Dawes Report is altogether a phenomenal accomplishment in this direction and that the highest admiration can only be expressed both in regard to the political wisdom as well as to the economic conclusions of the Committee of Experts. It goes without saying that I am personally fully convinced that this Report is not the last word regarding the whole question, but it shows us for the time being the way out of a maze, the exits of which seemed to be barricaded both from the inside and outside. The great misfortune is that this report appeared so very

5/31/1920

late. A year ago we could have passed it with a large majority; today, however, new difficulties have arisen by reason of the German as well as French recent elections. Nevertheless I do not lose courage, but it is of utmost importance that this Report be transposed into actuality with the greatest rapidity.

The Micum Agreement will expire again on June 15th; according to my information it is entirely impossible for Germany's industry to continue deliveries on this basis, as she no longer has the capital necessary for making deliveries without payment. I enclose a report which I made yesterday before the Central Committee of the Reichsbank, from which you will see that the Reichsbank as well, has arrived at the end of its resources, so that the whole country is suffering from a terrible lack of capital. The worst is that even foreign credits of longer maturities will not help us, because even these cannot be used by conservative parties without ^{the assurance of} a final and lasting stabilization of the German currency.

This point is usually lost sight of by all foreigners, but the Management of the Gold Discount Bank is giving it particular attention. The latter Bank only gives credits to such firms who can absolutely prove that they can produce foreign currency at maturity of the bills out of their own resources, viz. from exports or other foreign orders which they may have in hand. This is the reason why the Gold Discount Bank has not extended its activities as fast as this may have been expected in foreign countries. It is my desire to maintain under all circumstances the standing of "unconditional safety for granting credits to the Institution", and particularly not to jeopardize the confidence which was shown everywhere during the last few months in the Reichsbank. This was one of the reasons why I only asked for so moderate an amount of rediscount credits when you were kind enough

5/31/1920

to offer your services in this direction. This may have appeared rather picayune to some of your American friends who are used to large transactions, but I believe that you will fully approve of my policy in the long run. The time has now arrived, however, when I should like to ask you to be less stringent in regard to credit facilities for the Gold Discount Bank. The Management of the latter Bank will write you direct regarding this matter and will propose some changes for future transactions, which I hope both you and your friends will accept. Please bear in mind that it is of great help for the German industry and commerce if we can place at their disposal credits of the Gold Discount Bank at a more moderate figure.

In any case, it is our desire not to base ourselves entirely on the Pound Sterling. In this connection I have been particularly interested in the report and the remarks of the Federal Reserve Board concerning the question of the Sterling or Dollar basis. I have not fully understood the controversial points, because it appears to me that this matter is clearly elucidated in the Dawes Report, according to which only "gold" comes into question as the basis for the future German Reichsbank. There is also not the least doubt, as far as I am concerned, that we cannot have any real economic basis in Europe until the currencies, at least of the leading and most important countries, are again placed on a gold basis.

I shall always feel most grateful to you, my dear Mr. Warburg, for any suggestions or information you will be kind enough to transmit to me, and you may rest assured that I fully and gratefully appreciate the inestimable services which you are rendering the German, and thus to the ^{whole} European economic ^{re} establishment. You are thereby performing a service which is not rendered to any individual

5/31/1920

or class interest, but which redounds to the benefit of humanity
at large, and this ought to be ^{the} aim of all persons of ideal and moral
aspirations.

Believe me, with best personal regards,

Yours very truly,

(Sgd.) Dr. HJALMAR SCHACHT.

LN/FB

X261
Germany
Schacht

ACKNOWLEDGED 91 PINE STREET
NEW YORK

JUN 13 1924

R S.

June 12, 1924.

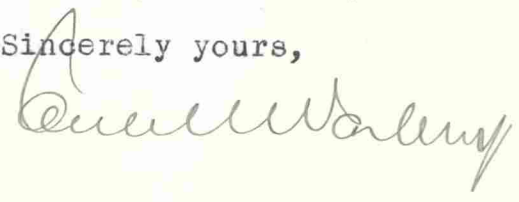
Confidential

Dear Ben:

Thanks for your letter of June 9th. I am in full accord with what you say.

I enclose a translation of the letter which I received from Doctor Schacht. It may interest you.

Sincerely yours,



Benjamin Strong, Esq.,
Federal Reserve Bank,
15 Nassau Street,
New York City.

N
Encl.

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RECEIVED BY
GOVERNOR'S OFFICE
JUN 1 1924
ST. LOUIS, MO

ACKNOWLEDGED

JUN 17 1924

31 PINE STREET
NEW YORK

June 16, 1924.

Dear Ben:

Enclosed a letter from Mr. Morss. Before answering it, I should like to compare notes with you. Will you let me know at your convenience when we may have a chat.

Sincerely yours,



Benjamin Strong, Esq.,
Governor,
Federal Reserve Bank,
15 Nassau Street,
City.

PMW.N
Enclosure.

UNKNOWN BANK
20 NINE STREET
NEW YORK

RECEIVED BY
GOVERNOR'S SECY



JUN 17 21

RESOLUTIONS ADOPTED BY THE FEDERAL ADVISORY COUNCIL

SEPTEMBER 25, 1924.

RESOLUTION NO. 1: WHEREAS, a further easing of money rates at this time might render it extremely difficult to ward off a period of acute inflation with its subsequent evil consequences with which the country is only too well familiar, and

WHEREAS, forced investments of Federal Reserve Banks in our market and continued substantial importations of gold into the United States are factors that might tend to enhance the plethora of money already existing,

RESOLVED, that this Council recommend to the Federal Reserve Board to consider the question whether the time has come for Federal Reserve Banks to exercise their power to invest some of their funds in foreign bills with approved American banking indorsements and payable by and repayable to Federal Reserve Banks in dollars.

The Council believes that observing these safeguards and by properly scattering its purchases the Federal Reserve System can safely invest substantial amounts abroad, without any risk of loss on account of exchange or otherwise, and in doing so ward off to that extent the inflow of gold, incidentally assisting the foreign countries involved in their efforts to stabilize their exchanges and to bring them back to definite gold relations.

RESOLUTION NO. 2: The Council has learned that the Secretary of the Treasury is about to call in for redemption on February 1, 1925, the \$118,489,900-4% Loan of 1925, and desires to record its entire approval of the policy involved in this step.

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Fourth block of faint, illegible text in the lower middle section.

Fifth block of faint, illegible text in the lower section.

John B. ...

3717 E. 22 St

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Personal

Walsh
52 CEDAR STREET
NEW YORK

January 27, 1925.

Dear Ben:

Ack 2/6/25

I take great pleasure in sending you herewith a copy of a confidential report which was prepared for submission to our stockholders at the annual meeting a week ago. It contains a short review of the first three and one half years of the activities of the International Acceptance Bank, Inc.

The friendly interest you have shown in the development of our Bank emboldens me to hope that you may find the time to glance over this report, and that it may please you.

Very faithfully yours,
Charles Walsh
Chairman

Hon. Benjamin Strong,
Governor,
Federal Reserve Bank,
33 Liberty Street,
New York City.

PMW.N.
Encl.

FEDERAL RESERVE BANK
OF NEW YORK

JAN 30 1925 11 09 AM

RECEIVED
GOVERNOR'S OFFICE

BS. 115B

Strictly CONFIDENTIAL and not for publication

Report
of the
International Acceptance Bank
Incorporated

To the Stockholders at the Annual Meeting
January 20, 1925

52 Cedar Street, New York



INTERNATIONAL ACCEPTANCE BANK, Inc.

BOARD OF DIRECTORS
for 1925

Chairman of the Board

PAUL M. WARBURG

Vice-Chairman

DANIEL G. WING

MATTHEW C. BRUSH
NEWCOMB CARLTON
WALTER E. FREW
F. ABBOT GOODHUE
ROBERT F. HERRICK
L. NACHMANN
GEORGE S. PATTERSON
JOHN T. PRATT

CHARLES B. SEGER
LAWRENCE H. SHEARMAN
WILLIAM SKINNER
PHILIP STOCKTON
CHARLES A. STONE
HENRY TATNALL
FELIX M. WARBURG
THOS. H. WEST, JR.

OFFICERS
for 1925

President

F. ABBOT GOODHUE

Vice-Presidents

FLETCHER L. GILL
P. J. VOGEL

L. NACHMANN
JAMES P. WARBURG
& *Secretary*

Treasurer

JOHN P. COLLINS

Comptroller

JOHN E. SHEA

Assistant Vice-Presidents

H. E. BARKER
C. B. HALL

W. T. KELLY
H. J. ROGERS

Assistant Secretaries

E. ARTHUR CARTER

W. H. SCHUBART
& *Mgr. For. Ex. Dept.*

Assistant Treasurers

G. GENSCH
R. W. PROCTOR

L. D. PICKERING
W. T. SHEEHAN

Mgr. Commercial Credit Dept.

B. HWOSCHINSKY

Auditor

M. W. WILLIAMS

ADDRESS

BY

PAUL M. WARBURG

Chairman of the Board of Directors

At the Annual Meeting of the Stockholders

January 20, 1925

STATEMENT OF CONDITION
INTERNATIONAL ACCEPTANCE BANK, INC.
AS OF DECEMBER 31, 1924

RESOURCES

Stockholders' Liability for Uncalled Subscriptions	<u>\$5,000,000.00</u>	
Cash on Hand and Due from Banks.....	\$7,582,067.36	
Call Loans Secured by Acceptances.....	4,810,000.00	
Acceptances of Other Banks.....	<u>5,092,526.96</u>	
		\$ 17,484,594.32
U. S. Government Securities.....		15,132,074.50
Collateral Loans.....		5,991,502.22
Loans and Advances—Due in 30 days.....	\$10,228,360.86	
Due after 30 days.....	<u>3,638,221.77</u>	13,866,582.63
Other Bonds and Securities.....		6,100,456.51
Customers' Liability for Acceptances (less anticipations).....		37,244,854.27
Customers' Liability under Letters of Credit.....		8,146,519.71
Accrued Interest Receivable and Other Assets.....		<u>260,514.79</u>
		\$104,227,098.95

LIABILITIES

Capital and Surplus Fully Subscribed	<u>\$15,250,000.00</u>	
Capital and Surplus Paid in.....		\$ 10,250,000.00
Undivided Profits.....		2,575,279.48
Due to Banks and Customers.....		44,460,169.14
Acceptances Outstanding.....		38,650,169.09
Letters of Credit.....		8,146,519.71
Reserve for Taxes, Unearned Discount and Other Liabilities		<u>144,961.53</u>
		\$104,227,098.95
Contingent Liability account of Endorsed Acceptances, Foreign Bills, etc., Sold.....		\$ 17,492,611.17

THE year 1924 will probably be written down in world history as marking the turning point when the Great War actually came to an end and when reconstruction really began. No careful future historian will venture to take the year 1918—or even 1919, as the beginning of the post-war recuperative period. The Armistice in 1918 brought military operations to an end; the Treaty of Versailles brought about a political settlement between the warring parties; economic warfare, however, continued, and a real peace was established only by the acceptance and putting into operation of the so-called Dawes Plan.

We may now hope that in 1925 a solid structure may rapidly spring up from the foundation carefully laid in the year just closed, for, just as inflation and economic disintegration spread over Europe like a contagious disease, so we may expect the healing process to spread gradually from one country to another. From this point of view, Austria's, Germany's and Hungary's accomplished stabilization means more than the re-establishment of social and economic order in these countries. It means that the era of wildly fluctuating exchanges is generally approaching its end and that soon we may hope to see King Gold bringing once more under his final and definite control the printing presses that had threatened to drown Europe in a flood of paper currency. The battle in this regard was won, indeed, when Austria and Germany were placed on a gold basis. It seems now to be only a matter of time before we may see the Pound Sterling placed on a basis of free convertibility into gold, with several other countries following suit, and France, Belgium and Italy determining the new levels on which to stabilize their respective exchanges. It is realized by all that this will not be an easy matter, and that such steps will require courage and a willingness to accept heavy sacrifices. However, the Austrian, German and Hungarian experiences in this regard have not only pointed the way, but have also taught the lesson that the results warrant whatever temporary hardships may be involved.

For the International Acceptance Bank, Inc. this turning of the tide is of a double significance.

The character of the business done by our bank is largely international, and the first years of its operations were, by reason of the economic and political uncertainties then existing, necessarily governed by the greatest caution and conservatism. It is, therefore, of the very greatest importance that we may now hope to see Europe enter upon an era of greater political and economic stability.

From its inception, our bank has pursued a policy of distributing its risks both as to the commodities and countries involved in its credit transactions. With the greater safety to be looked for in the near future, it may be possible to enlarge the limits to which dealings with each country have been restricted. However, the development of the International Acceptance Bank, Inc. has synchronized with the general course of events in this further respect, that the three and one-half years of its existence to date may be considered as the period during which its foundations were laid, and that for it, too, a new era may begin with the year 1925.

The International Acceptance Bank, Inc. opened for business in April 1921 with a capital and surplus fully subscribed of \$10,000,000 and \$5,000,000 respectively. When the original plan for its structure was worked out, its organizers had in mind that for an acceptance bank it would be of great advantage to have a substantial uncalled liability on the part of its stockholders. In this they were following British banking methods; the thought being that an uncalled liability enables a bank to take upon its shoulders correspondingly larger engagements, while at the same time the capital paid in on which a dividend is to be earned, remains smaller. An uncalled liability is, therefore, a protection for the creditors of the Bank while at the same time, from the point of view of the return to be earned, it is a benefit for the stockholders. The organizers of the Bank had hoped that it would be possible to arrange its capitalization in such a manner as to provide for a capital of \$10,000,000 on which \$5,000,000 would be paid in, plus a surplus fully paid in of \$5,000,000, so that there would have remained an uncalled liability of \$5,000,000 on capital account. Unfortunately, under the rulings of the State Banking Department then prevailing, it was necessary that the capital should be paid in in full, leaving the uncalled liability on surplus account. This

plan had, therefore, to be followed when the Bank was organized. It was felt, however, that our structure was not an ideal one until we had at our disposal a surplus—not subscribed, only, but actually paid in or earned—which would actually be available for any emergency that, theoretically or practically, might arise. In these circumstances it was the first concern of the management of the International Acceptance Bank, Inc., to build up a substantial surplus from earnings. Satisfactory progress has been made in this regard. At the close of 1924 our balance sheet shows in undivided profits an amount in excess of \$2,500,000, while a further substantial hidden reserve has been accumulated so as to be available in case of unexpected contingencies. We are delighted to report, moreover, that it has since been possible to obtain from the Banking Department an amended ruling which enabled us to carry out our original plan. Accordingly we sought and obtained the unanimous consent of our stockholders to so readjust the capital and surplus accounts that from the first of January 1925 our balance sheet will show a capital paid in of \$5,000,000, a surplus actually paid in of \$5,000,000, an uncalled liability on account of capital stock subscriptions of \$5,000,000, and undivided profits in excess of \$2,500,000. This, plus the fact that other substantial reserves have been accumulated, gives the International Acceptance Bank, Inc. the position of intrinsic and structural strength which it was essential to secure before, in the judgment of its officers and directors, dividend payments should be inaugurated. It is now felt that, if conditions continue to develop as favorably as they have in the past, the moment may be near at hand when the Bank should begin to make a regular, though of course at first moderate, distribution to its shareholders.

Thus, we may say that with the end of 1924 the first formative period of the International Acceptance Bank, Inc., has come to a close.

It is possibly more than a coincidence that at this particular time the Bank having outgrown its first quarters, on December 22 moved into a building of its own. Very soon after its first operations began on the two original floors at 31 Pine Street, this space proved inadequate to take care of the Bank's rapid growth, and, further space in the same building not being available, two floors had to be leased next door at 29 Pine Street.

It is needless to say that operations in two separate buildings were neither economical nor conducive to that degree of efficiency which the Bank tries to attain. In these circumstances it soon became apparent that it was only a question of time before the Bank would have to seek its own permanent quarters. Fortunately a building at 52-56 Cedar Street, admirably suited for our purposes, was available at a moderate price. This property was accordingly acquired and remodeled by the Cedar Street Corporation (organized for that purpose), of which the International Acceptance Bank, Inc. is the only stockholder. At a very reasonable expense it was then found possible to enlarge and improve the building in such a manner as to provide the Bank with thoroughly modern quarters, adapted to its present needs and leaving ample space for future growth. It is planned for the time being to let several floors, thereby reducing the annual charge to the Bank, which, when all free space is rented and our old lease disposed of, will practically be the same as it was in our old quarters. Several of our out-of-town stock-holding banks have taken offices for their New York representatives in our building, and this, it is hoped, will further promote the development of our relations with them.

A review of the first three years of our operation warrants the statement that the two specific thoughts that underlay the foundation of our institution have shown themselves to have been sound. These fundamental ideas were: first, that as a consequence of the war and the perfection of the Federal Reserve System, the United States found itself in a position of financial predominance which imposed upon the American bankers the duty of doing their share in financing the world's trade and commerce, and gave them the opportunity, by the granting of Dollar credit facilities, to take over, in particular, the burden of financing a large part of America's own foreign trade heretofore carried through Sterling credits opened by British bankers. The second thought was that insofar as this business involved intimate relations and acquaintance with foreign countries, it was most desirable, if not imperative, for any bank planning to engage comprehensively and successfully in this new field to enjoy relations of the greatest possible intimacy with banks and firms long established in these foreign lands. These considerations led to the plan of inviting leading firms and banks in

foreign countries to become our stockholders and close associates in our enterprise. Looking backward today we find every reason to congratulate ourselves upon the adoption of this policy. These foreign friends, in due course, became not only our best customers, but, what is even more important, they became our trusted advisors. Our relation with them has enabled us consistently to hold to the policy of granting commercial credits in foreign countries where we have the advantage of having stockholding banks, only upon the recommendation of these banks, and, wherever possible, with their participation in the business. Relations of this sort were of outstanding importance when conditions were as troubled as were those prevailing throughout the world during the first years of our existence. With banking and credit conditions shrouded in a heavy mist, it would have been impossible for our bank to undertake the business it did without the backing and the confidence gained from the co-partnership of these foreign institutions. True enough that even with these advantages, we had to move most cautiously and hold consistently to the principle of distributing our credits as widely as possible, both as to commodities and countries, and of never exceeding a certain maximum limit for any single commercial risk. Credit business in the final analysis is insurance business, and wherever we considered that the commitment involved in any single credit exceeded the conservative maximum we had established for ourselves, we sought associates willing to join us in the transaction. In this respect our American stockholding firms and banks proved valuable partners; and we did not find any difficulty in increasing the number of participants in our credits outside of this group of intimate friends whenever that seemed desirable. It is a satisfaction to state that our Bank has been permitted to enjoy a position of confidence in the banking community almost from the day of its beginning.

As early as July 1921, the Bank was able to organize an acceptance syndicate of \$9,000,000 for the purpose of financing a grain credit to be granted to Germany, on which occasion it cooperated with the Bankers Trust Company of New York. Since then several large syndicate credits have been arranged by the International Acceptance Bank, Inc., the most interesting of which was probably a re-discount credit of \$5,000,000,

later enlarged to \$25,000,000, which was opened for the German Gold Discount Bank at the request of its President, Doctor Schacht. In this credit practically all the leading banks of the City of New York and many of our out-of-town friends participated. The Syndicate was formed in order to provide for the Gold Discount Bank facilities for rediscounting German trade bills drawn in dollars and domiciled in New York, having not more than ninety days to run, such bills bearing in addition to the signatures of the purchaser and seller of goods, the endorsement of a German bank or banking firm, and the endorsement of the Gold Discount Bank. With the approval of the Federal Reserve Board such bills were declared to be eligible for purchase by the Federal Reserve Banks when bearing an approved American endorsement. This rediscount credit, while ultimately used only to a comparatively small extent, no doubt proved to be a helpful and constructive transaction in the critical period preceding the adoption of the Dawes Plan, when it was imperative to preserve and strengthen German credit until that plan could be matured and carried into effect. In this connection it may be of interest to record that prior to this transaction, in cooperation with other banks, we had already granted a similar though smaller rediscount credit to the Hamburgische Bank of 1923, which aided that institution in substituting a gold currency in Hamburg when the flood of paper circulation had reached its highest crest. In all transactions touching Germany, we had the invaluable benefit of the cooperation and advice of our friends and associates there. They acted as our guides and partners in a large number of credits which we opened in Germany, and while these transactions were concluded in a critical period we are happy to state that due to the intelligence and vigilance of these friends we did not have to record a single loss in our credit transactions with that country. In a similar manner our intimate friends in other countries have been of the greatest value to us. They brought us valuable accounts, and through them we have opened a large number of credits, some of which led to interesting syndicate transactions under our auspices. These negotiations were not limited to the granting of acceptance credits. They also led to our placing, in conjunction with other friends here, short term notes for foreign governments, municipalities, and private enterprises. While we have adopted the general rule of not acting as a seller

of securities to the public, we have placed our services freely at the disposal of our friends here and abroad and have carried on negotiations which brought together the would-be sellers abroad with the would-be purchasers in this country. Moreover, in two exceptional cases where it seemed desirable to demonstrate our sympathy with the undertaking and our wish to cooperate in a constructive operation, namely in the Japanese and German loans, we appeared as one of the issuing houses on the public prospectus.

One of the most interesting developments in 1924 was the organization of the American & Continental Corporation, in which the International Acceptance Bank, Inc. took a prominent part—even though its ultimate actual financial investment is only a comparatively small one. Early in 1924 it became apparent that the acute shortage of working capital in Germany, due to the devastating effects of the war and of the post-war inflation, could not be met through ordinary banking channels insofar as the advances required by the German industries were really needed for working capital and for periods of several years. These requirements often could not be filled by an immediate appeal to the investment market,—first because the conditions in Germany were not yet sufficiently clarified to permit the sale of securities to the American public, and second, because the rate at which such securities would have to be sold might have constituted too heavy a permanent burden for the German borrower. It, therefore, appeared desirable to organize an intermediate credit corporation which would be able to tide over certain German industries during the time in which they could be helped neither by commercial banks nor by an appeal to the investment market. It was thought that industrial corporations desiring to secure advances for, say, three to five years might be willing to compensate the American lenders by granting options on stock or other similar advantages conditional upon their own success, as compensation for a comparatively moderate interest charge to be applied on such loans.

It was for the purpose of dealing with transactions of this character that the American & Continental Corporation was constituted as a syndicate in corporate form with a capital fully subscribed of \$10,800,000. The first organizers were Kuhn, Loeb & Co., Dillon, Read & Co., North American Com-

pany and the International Acceptance Bank, Inc. They were joined later on by other American firms and corporations, the principal participants being the following New York banks and firms:

American International Corporation, Farmers Loan & Trust Company, Marshall Field, Glore, Ward & Co., New York Trust Company, the U. S. & Foreign Securities Corporation; also the First National Bank of Boston and A. G. Becker & Co., of Chicago.

These participants were willing to lock up their proportionate share in the syndicate in the hope that by so doing they would ultimately realize attractive benefits from the options or other advantages to be secured by the Corporation. That this thought was a sound one is proven by the fact that it has been possible since the Corporation's formal organization in October to invest a substantial portion of its available capital in a manner as above outlined; and it is pleasing to state that some of the options on shares have already begun to show promising profits. Similar transactions are in the course of negotiation.

The fact that the circle of would-be lenders has widened, through the general confidence instilled by the improvement in the situation in Europe, will naturally render it somewhat more difficult for the Corporation to operate in the future. However, inasmuch as the Corporation is in fact a syndicate, it can, as such, afford to bide its time and call upon its participants for payments on their subscriptions of stock only as it sees opportunities which are genuinely attractive and warrant the tying up of funds for a protracted period.

The American & Continental Corporation follows substantially the same plan as the International Acceptance Bank, Inc., insofar as it has laid down for itself the policy of securing, wherever possible, not only the advice but also the active participation of leading banks and banking firms in the country where the advance is to be granted, and of its associates in adjoining countries. The Corporation has been most fortunate in constituting a European group, which acts as its advisor and partner in these advances. This group comprises such banks and firms as:

Deutsche Bank, Berlin; M. M. Warburg & Co., Hamburg; A. Levy, Cologne; Sal. Oppenheim & Cie., Cologne; I. H. Stein, Cologne; and outside of Germany: Hope & Co., Amsterdam; Société Financière de Transports et d'Enterprises Industrielles, Brussels; Skandinaviska Kreditaktiebolaget, Stockholm; Svenska Handelsbanken, Stockholm; Oesterreichische Creditanstalt fuer Handel & Gewerbe, Vienna.

Some of these have, at the same time, become stockholders of the American & Continental Corporation.

INTERNATIONAL ACCEPTANCE BANK, INC.

COMPARATIVE BALANCE SHEET AS OF DECEMBER 31ST

RESOURCES

	1922	1923	1924
Stockholders' Liability for Uncalled Subscriptions.....	\$ 5,000,000.00	\$ 5,000,000.00	\$ 5,000,000.00
Cash on Hand and Due from Banks.....	\$ 7,154,615.18	\$ 6,253,734.30	\$ 7,582,067.36
Acceptances of Other Banks.....	2,115,254.74	3,623,225.90	5,092,526.96
Call Loans Secured by Acceptances.....			4,810,000.00
U. S. Government Securities.....	10,885,686.10	12,456,642.61	15,132,074.50
Collateral Loans.....		5,359,233.91	5,991,502.22
Other Loans and Advances.....	2,699,975.05	8,097,547.32	13,866,582.63
Other Bonds and Securities.....	3,229,429.17	5,475,717.01	6,100,456.51
Customers' Liability for Acceptances (less anticipations).....	27,045,621.51	31,223,648.96	37,244,854.27
Customers' Liability under L/C.....	5,611,383.93	6,775,729.42	8,146,519.71
Other Assets.....	199,124.45	268,855.54	260,514.79
	\$58,941,090.13	\$79,534,334.97	\$104,227,098.95

LIABILITIES

Capital and Surplus Fully Subscribed.....	\$15,250,000.00	\$15,250,000.00	\$ 15,250,000.00
Capital Paid in.....	\$10,250,000.00	\$10,250,000.00	\$ 5,250,000.00
Surplus Paid in.....			5,000,000.00
Undivided Profits.....	969,519.76	1,632,655.59	2,575,279.48
Due to Banks and Customers.....	13,074,143.30	28,186,825.13	44,460,169.14
Acceptances Outstanding.....	28,833,975.99	32,590,355.88	38,650,169.09
Letters of Credit.....	5,611,383.93	6,775,729.42	8,146,519.71
Reserves for Taxes, Unearned Discount and Other Liabilities.....	202,067.15	98,768.95	144,961.53
	\$58,941,090.13	\$79,534,334.97	\$104,227,098.95
Contingent Liability a/c Endorsed Acceptances, Foreign Bills, etc., Sold.....	\$12,040,211.21	\$12,478,797.89	\$ 17,492,611.17

The consistent growth of the International Acceptance Bank, Inc. since its organization, is clearly evidenced by the comparative statements as of the close of the years 1922 (its first full year of operation), 1923 and 1924. The steady increase in acceptances and letters of credit outstanding on December 31 from \$34,400,000 in 1922 to \$39,300,000 in 1923, and \$46,800,000 in 1924 reflects the development of the Bank's chief line of activity. The growth of the current account business,—almost entirely with foreign clients,—is evidenced by the increase from \$13,000,000 on December 31, 1922, to \$28,200,000 in 1923, and \$44,460,000 in 1924. The number of accounts has increased steadily, and during the last year showed an increase of 20% over 1923.

Investments, notably in United States government securities, loans, advances, portfolio as shown in the comparative figures, all indicate a gradual and consistent building up of the bank's business.

A comparison of the Undivided Profits Account shows moreover that the earnings of the Bank have grown more than in proportion to the increase of its business during three and a half years of operation. Undivided profits in excess of \$2,500,000 have been accumulated in addition to very substantial hidden reserves.

COMPARATIVE SCHEDULE OF EARNINGS AND EXPENSES
AS OF DECEMBER 31ST

	<u>1922</u>	<u>1923</u>	<u>1924</u>
Earnings.....	\$1,571,718.60	\$1,651,030.31	\$2,539,320.64
Expenses.....	500,518.60	683,774.92	759,551.92
Net Earnings.....	\$1,071,200.00	\$ 967,255.39	\$1,779,768.72
Deductions for Taxes, Extra-ordinary Reserves, etc.....	183,700.00	304,119.56	837,089.24
Amount transferred to Undi-vided Profits.....	\$ 887,500.00	\$ 663,135.83	\$ 942,679.48

The Bank has been fortunate in not having incurred any losses of consequence from the day of its organization to date. (The total amount actually charged off against losses in this entire period is less than \$40,000).

As regards our staff, we began the year 1924 with 187 officers and employees, as against 160 in the previous year, and as against 69 at the beginning of 1922 and 35 in April 1921, when the Bank was organized. We have continued our policy of increasing the salaries of the members of the existing staff, commensurate with the efforts they put forth, rather than of adding to the bank's expenses by taking on many new employees. That the increased efficiency of our employees enabled us to carry this policy into effect, may well be a source of as genuine a satisfaction to the entire staff as it is to the officers.

Among the officers the following changes took place during 1924—

Mr. Henry B. Kingman resigned as Assistant Secretary and became Vice-President of the Webster and Atlas National Bank in Boston. Mr. A. Benjamin, Assistant Secretary, resigned, and became Manager of the Foreign Department of the Manufacturers Trust Co. Mr. E. Gugelmann, Manager of the Foreign Exchange Department, resigned and returned to his home in Switzerland, where he has become affiliated with the Banque Commerciale de Basle. Mr. W. H. Schubart became Manager of the Foreign Exchange Department. Mr. Harold E. Barker and Mr. Howard J. Rogers were made Assistant Vice-Presidents. Mr. John P. Collins was made Treasurer, Mr. G. Gensch, Assistant Treasurer, Mr. C. B. Hall, Assistant Secretary, Mr. B. Hwoschinsky, Manager Commercial Credit Department and Mr. W. T. Sheehan, Manager Collection Department.

PRESS OF
L. H. BIGLOW & COMPANY, INC.
NEW YORK

Warburg

52 CEDAR STREET
NEW YORK

April 20, 1925.

Dear Ben:

I have to thank you for your two nice notes of April 17th.

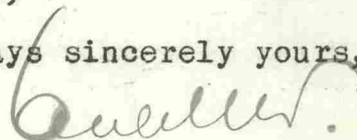
I am looking forward to being with you at the Machado dinner. Not that I care much about the General, but I am looking forward to your company and that of the Federal Reserve Bank Directors, which I am sure will be very pleasant.

As to the Augusta meeting, you know without my saying so that you may call on me any time day or night. It will always be a pleasure to respond, even though it may at times be a greater pleasure to devise ways and means to do the trick without being a "glad-hander" amongst the A. B. A. crowd. Perhaps you might be interested in a letter ^{returned} I wrote Doctor Lichtenstein, and sent down to him at Augusta through the intermediary of the A. B. A. office. I think that should give him ammunition enough to keep him out of mischief.

With kindest regards,

Always sincerely yours,

Benjamin Strong, Esq.,
Governor,
Federal Reserve Bank,
New York City.



PMW.N

FEDERAL RESERVE BANK
OF

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RECEIVED
GOVERNOR'S OFFICE

I have to thank you for your nice
of April 1925
I am looking forward to being with you at
the Kansas dinner. Now that I can speak about the General
and I am looking forward to your company and that of the
Federal Reserve Bank Directors, which I am sure will be
very pleasant.
As to the August meeting, you know without
my saying so that you may not feel on me any time next night.
It will always be a pleasure to respond even should it
not be done at a greater pleasure to devise ways and means
to do the best thing being of the highest quality.
A. B. A. Council, Kansas City, Mo., and
for Kansas: Department of Finance, and
to August through the Secretary of the A. B. A. Council.
and I think you should give him something to keep his
out of alcohol.
This kind of letter
Always sincerely yours

Benjamin Strong, Esq.,
Governor,
Federal Reserve Bank,
New York City.

Paul A. Warburg

Hamburg, August 21st 1925.

Dear Ben,

I just returned to Hamburg after a two days' visit with our friend in Berlin and I want to send you these lines so as to keep you advised before your own sailing. I thank you very much for your letter which I read with the greatest interest. I regret to say that the deeper I got into the matter, the more I became impressed with the terrible bungling that had taken place. I am afraid our friend, or his subordinates, committed a grave blunder when they permitted two institutions who had been members of my original syndicate, -and who had found the door to the Reichsbank through me-, to inveigle them into the belief that the interests of the Golddiskontbank were better served by individual transactions than by a continuation of the handling of the American market ^{through} ~~to~~ one organized group. I assume that your New York associates have kept you fully advised as to what happened. The thing finally degenerated into a peddling campaign on the part of Mr. Bendix who went around offering the bills at 5% to the banks, following the lists that constituted our original syndicate, the result being that there were refusals ^{and rejections} galore, and a matter, that previously had been handled in good style and on a high plane, was permitted to become thoroughly discredited. We have had

Hon. Benjamin Strong Esq.

c/o. Montagu Norman Esq.

Bank of England

L o n d o n E. C.

indications that the members of the old syndicate were considerably nonplussed and annoyed. While the whole affair is most unfortunate it is only fair to state that Dr. Schacht had not been entirely aware of what had happened and when, after our talks, he saw the mess they had made he lost no time in stopping all offers. He has since written me a letter of which I enclose a copy for your own confidential use. *(don't let Schacht know, please, that I sent it to you)* This letter tells its own story and shows you the fine spirit in which Dr. Schacht accepted my very frank statement. My talks with him were most satisfactory in this regard and while I regret what has happened -even more in his interest than in mine- I believe that in the end we parted better friends than ever.

As he told me he is going to see you in London before you sail, and I think that it may be advisable, therefore, that I should put before you some thoughts which I suggested to him, and which he asked me to discuss with you upon my return and which, no doubt, he will discuss with you himself. Outside of us two the matter is not to be mentioned for the time being.

I said to Dr. Schacht that, in case he wanted to give the German market the benefit of the borrowing power of the rediscount market in New York, it would be better to bottom the matter on a definite transaction which could be readily explained and understood, and which in itself would command so much confidence that the weight of the Goldskontbank's endorsement in the matter would become rather slight. I asked him whether it would not be possible to have the German government railway system, which every year buys approximately M. 300,000,000.00.

worth of coal from the coal mines, become the borrower by arranging for the German railways either an acceptance credit to be granted by a New York banking syndicate and to be availed of by the coal producing companies , or whether it would be possible , - if that should be preferred, to have the coal mines draw trade-acceptances on the Reichsbahn which could be endorsed by German banks and then bought by the Golddiskontbank and sent to a New York syndicate on similar lines as was done in connection with the first credit. - In either case the German Reichsbahn would be looked upon as the main borrower and the bulk of the burden of the credit would rest on it , instead of on the Gold-diskontbank.

If the form of an acceptance-credit should be preferred it would be quite possible to have the coal fenced off and put in the custody of the Deutsche Waren-Treuhand A.G., a trust company organized for such puposes , so that the acceptances would be "eligible as drawn against staples in independent warehouses ".

I think both transactions would be feasible. As to which would be the more agreeable form will depend largely upon your own judgment. Your own ideas concerning the desirability of a co-operation on the part of the Federal Reserve Banks will be of outstanding importance in fashioning these plans. They could be carried through quite independently, the Federal Reserve Bank being in the background as a well-inclined friend in case of need. That would leave your hands free in case you felt that you wished to be open for other direct transactions

with the Reichsbank or Golddiskontbank .On the other hand if it would be agreeable for the Federal Reserve Banks to purchase the bankers acceptances, in case such syndicate should be organized ,they might be steered into the Federal Reserve Banks direct without coming into the market.

Don't bother to acknowledge this letter. We can discuss its contents when we meet in New York; but inasmuch as Dr. Schacht is not quite as well posted with regard to the rules and regulations (written in the year 1914 at White Sulphur Springs by one Benjamin Strong and one P.W.M.). I thought that it might be better for me to explain to you what is at the back on my bald cranium.

My impressions in Berlin were that, while the shrinking process through which Germany is passing, and the pricking of the bubbles, is painful, it is a healthy process and one, which was inevitable in order to reach a rock bottom foundation for Germany's future economic growth. The so-called vertical trusts will have to go, and the horizontal trusts -which means the consolidation and merging of related industries- will have to grow; the coat has become too large for a shrunken body and some pleats are being taken out at present. And that is as it should be. The situation is aggravated by the curtailing of foreign credits and the unwillingness on the part of some American and other foreign institutions to continue to repurchase maturing domicile-paper. But then you know my opinion, often expressed, that the peddling out of this paper was an undesirable and dangerous affair , just as undesirable as the granting of credits on the part of people who only are what I call

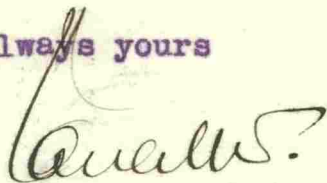
-5- Benjamin Strong Esq., London.

" fairweather-friends". Men of that disposition have no place in the credit-business; they are a nuisance and a danger. But I do not want to mention names; moreover you know them.

My ladies thank you very sincerely for your kind regards and reiterate them cordially. I think Nina has profited greatly from the cure ; as to myself I am so thoroughly rejuvenated that most people think I have become positively childish.

I hope you had a nice time and that I shall see you soon at your desk, hale and hearty and with the familiar twinkle in the eye. Cheerio and au revoir!

Always yours



Abschrift

Der Präsident
des Reichsbank-Direktoriums

Berlin 20. Aug. 25.

Herrn Paul Warburg

New York

52 Cedar Street

Sehr verehrter Herr Warburg !

Nachdem aus Ihren Mitteilungen mir hervorzugehen schien, dass über den Rediskont von Wechseln der deutschen Golddiskontbank am New Yorker Platze bei Ihren Freunden unrichtige Auffassungen vorhanden zu sein scheinen, möchte ich mir erlauben, Ihnen kurz das, was geschehen ist, zu schildern.

Nachdem ^{Sie} s. Zt. zu meiner grossen Genugtuung das erste Rediskont-Syndikat für die Golddiskontbank zustande gebracht hatten, erwies sich, dass Reichsbank und Golddiskontbank in sich stark genug waren, den damals auftretenden Begehr in einem grossen Umfange aus eigener Kraft zu befriedigen, sodass wir von dem Syndikat nicht in dem erwarteten Ausmasse Gebrauch zu machen in der Lage waren. Wenn wir dagegen eine Bereitstellungsprovision zu zahlen hatten, so war dies zwar eine Belastung, ich möchte aber nochmals ausdrücklich anerkennen, dass der Dienst, den Sie uns damals geleistet haben, ein grosser gewesen ist und dass wir Ihre Bemühungen in vollem Umfange anerkannt haben und noch heute dankbar würdigen.

Inzwischen

Inzwischen sind an die Golddiskontbank von einer ganzen Reihe von amerikanischen Banken von Zeit zu Zeit immer wieder Anfragen gekommen, ob man nicht Wechsel nach New York abzugeben bereit sei. Das ist geschehen sowohl von Firmen, die Ihrem Syndikat angehörten, als auch von Firmen, die ausserhalb des Syndikats standen. Es ist dabei immer wieder zum Ausdruck gebracht worden, dass man doch auch gern in direkte Verbindung mit der Reichsbank und der Golddiskontbank kommen möchte. Nachdem nun die Golddiskontbank ihr zunächst etwas eingeschränktes Geschäft wieder erweitert hat, um dem deutschen Export zur Seite zu stehen, habe ich, da ich mich in erster Linie Ihnen verpflichtet fühlte, mit Ihrem Bruder Max gesprochen und ihm die Situation dargelegt. Ihr Bruder Max war auch der Ansicht, dass man wohl in dem heutigen Stadium die Anerbieten anderer amerikanischer Banken nicht ablehnen sollte, unbeschadet des Umstandes, dass die Golddiskontbank in erster Linie Ihnen, sehr verehrter Herr Warburg, verpflichtet sei,

Wie Ihnen bekannt ist, haben wir dann mit der "International Acceptance Bank" einen Rediskont-Kredit von 2 Millionen Dollar abgeschlossen, und wir haben ferner mit drei anderen amerikanischen Banken einen Kredit über ähnliche Beträge (teils etwas grösser, teils etwas kleiner) gleichfalls abgeschlossen. Es wird Sie interessieren, dass wir bisher, alles in allem, diese Fazilitäten bis zu einem Betrage von 5,1 Millionen Dollar ausgenutzt haben. Ich nenne Ihnen diesen Betrag absichtlich, um durch Sie den amerikanischen Markt über die Höhe unserer Engagements aufzuklären. Ich werde mir auch erlauben, Ihnen von Zeit zu Zeit mitzuteilen, wie hoch das

gesamte Rediskont-Engagement der Golddiskontbank ist, und ermächtige Sie gern, ja ich würde sogar darum bitten, dass Sie die Beträge dort wissen lassen, damit der amerikanische Markt genau über unsere Verpflichtungen orientiert ist. Es ist mir dieses deswegen besonders angenehm, als ich höre, dass hier und da von unberufenen Vermittlern, die keinerlei Auftrag von uns haben, amerikanische Banken für Rediskont-Abmachungen der Golddiskontbank interessiert zu werden scheinen. Ich ermächtige Sie deshalb gern, davon Gebrauch zu machen, dass wir niemals irgend jemanden beauftragt haben, für die Golddiskontbank in dieser Weise tätig zu sein, wie wir überhaupt bisher Rediskont-Kredite nicht nachgesucht haben. Sollten die Dinge einmal so laufen, dass wir unsererseits zu einem grösseren Golddiskont/^{bank}Kredit die Initiative ergreifen sollten, so würden wir in erster Linie wieder mit Ihrem geehrten Hause in Verbindung treten.

Erlauben Sie mir, Ihnen nochmals zu versichern, dass es mir ein ganz besonderes Vergnügen war, Sie hier gesehen und die freundschaftlichen Beziehungen, die uns und unsere Institute gegenseitig verbinden, aufs neue bekräftigt zu haben.

Mit besten Grüßen

Ihr sehr ergebener

gez-Dr.Hjalmar Schacht

FEDERAL RESERVE BANK
OF NEW YORK

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GOVERNOR'S OFFICE

...angehen, als ich hörte, dass hier und da von unternommenen Vermittlungen
die keinerlei Auftrag von uns haben, amerikanischen Banken für Gold-
kont-Abschreibungen der Goldbank interessiert zu werden scheinen.
Ich erwünschte Sie deshalb gern, davon Gebrauch zu machen, dass wir
nichts irgends jemanden beauftragt haben, für die Goldbankbank
in dieser Weise tätig zu sein, wie wir überhaupt dieser Reduktion
Kredite nicht nachgesucht haben. Sollten die Dinge einmal so laufen,
dass wir andererseits an einem besseren Goldbankkredit die
Initiative ergreifen sollten, so würden wir in erster Linie wieder

...Erlauben Sie mir, Ihnen nochmals zu versichern, dass es mir
ein ganz besonderes Vergnügen war, Sie hier gesehen und die freundschaftlichen
Beziehungen, die uns und unsere Institute gegenseitig
verbinden, aufs neue bekräftigt zu haben.

Mit besten Grüßen

Ihr sehr ergebener

Ges. Hr. Hjalmar Schacht

(COPY)

The President of the
Reichsbank-Directorate

Berlin, Aug. 20, 1925

Mr. Paul Warburg,
52 Cedar Street,
New York.

Respected Mr. Warburg:

Since from your information to me it seems that among your friends wrong impressions exist about the rediscounting of drafts of the German Gold-diskont Bank on the New York market, I should like to be permitted to tell you briefly what has happened.

After you, at the time, to my great satisfaction, had brought into existence the first rediscount syndicate for the Golddiskont Bank, it was shown that the Reichsbank and Golddiskont Bank in themselves were strong enough to satisfy/through their own power, to a large extent, the demand existing at the time, so that we were not in a position to make use of the syndicate to the extent expected. When we had to pay a commission for protection, that was, indeed, a burden, but I must expressly recognize again that the service which you then rendered us was a great one, and that we have recognized your efforts in full measure and are still today thankful for them. Meanwhile, requests are still coming to the Golddiskont Bank from a whole series of American banks from time to time, as to whether they are not ready to give drafts on New York. That has been done both by firms which belong to your syndicate and by firms which were not in the syndicate. The wish was repeatedly expressed that they would like to come into direct connection with the Reichsbank and the Golddiskont Bank. After the Golddiskont Bank had expanded^a its at first limited business, in order to back German export trade, I have, since I felt under obligation to you, above all, spoken with your brother Max and explained the situation to him. Your

brother Max is also of the opinion that in the present condition of affairs we should not decline the offers of other American banks, notwithstanding the fact that the Golddiskont Bank was, above all, under obligations to you, highly honored Mr. Warburg.

As you know, we have established a rediscount credit of \$2,000,000 with the International Acceptance Bank, and we have, moreover, likewise, established with three other American banks a credit of like dimensions (partly somewhat larger, partly somewhat smaller). It will interest you to know that we, so far, all in all, have made use of these facilities to an amount of 5.1 million dollars. I mention this amount to you intentionally in order to enlighten the American market through you as to the amount of our undertakings. I shall also permit myself to inform you from time to time how great the total rediscount liability of the Golddiskont Bank is, and permit you gladly, yes, I would even request you to, make known the amounts in your city, so that the American market should be clearly informed about our obligations. This is especially agreeable to me because I hear that, here and there, American banks seem to have become interested for rediscount dealings of the Golddiskont Bank, made by unauthorized go-betweens who have no commission from us. I gladly empower you, therefore, to make use of the knowledge that we have never commissioned anyone to be dealing in this manner for the Golddiskont Bank, just as we heretofore have never sought for rediscount credits. Should things go so that we on our side wish to take the initiative for a large Golddiskont Bank credit, we would then, first of all, again make connections with your honored firm.

Permit me to assure you again that it gave me an especial pleasure to see you here and to have strengthened again the friendly relations which join us and our institutions mutually.

With kindest greetings,

Yours,

Dr. Hjalmar Schacht

Translation.

Deutscher Präsident
des
Reichsbank - Direktoriums.

Berlin, August 20th, 1925.

Mr. Paul Warburg,

New York

52, Cedar Street.

Dear Mr. Warburg,

From what you told me I infer that your friends appear to be labouring under a misconception concerning the rediscounting of bills in New York on the part of the Deutsche Golddiskontbank. May I therefore be permitted to give you a brief report of what has really happened:

After you had to my great satisfaction succeeded at the time in forming the first Rediscount-Syndicate for the Golddiskontbank, the Reichsbank and Golddiskontbank proved to be sufficiently strong in themselves to meet the then existing demand to a large extent alone, so that we were not in a position to use the Syndicate's facilities as much as we had expected. The commitment-charge, we had to pay, was a burden to us, of course, but I wish to expressly acknowledge again the very great service you rendered us at the time. We fully appreciated and are still gratefully appreciating your efforts on our behalf.

The Golddiskontbank has since continually been receiving enquiries from quite a number of American Banks

for bills to be discounted in New York. The Bank was approached in this way by firms who were members of your Syndicate, the same as by other firms. They all emphasized that they were anxious to enter into direct relations with the Reichsbank and the Golddiskontbank. Since the Golddiskontbank - in order to help the German export-trade - has now again extended its, originally somewhat limited, activity, I spoke with your brother Max and explained the situation, because I felt to be under an obligation to you before others. Your brother Max shared my views as to the advisability, at the present stage, not to decline any offers of other American Banks, in spite of the fact that the Golddiskontbank felt to be under an obligation in the first place to you, dear Mr. Warburg.

As you know, we subsequently arranged with the International Acceptance Bank a rediscount credit of \$ 2.000.000.-, and we have also made similar arrangements (partly for a little larger, partly for a little smaller credits) with three other American Banks. You may be interested to hear that we have hitherto used these facilities all in all to the extent of 5,1 Million dollars. I quite intentionally name this figure, so that our commitments may become known through you to the American market. I shall also take the liberty of reporting to you from time to time the total rediscount commitments of the Golddiskontbank and readily authorize you, and even request you, to make such figures known on your side, so that the American market may always be accurately posted as to our commitments. This I

would specially welcome, as I hear that unauthorized intermediaries appear to be trying now and then, without any instructions on our part, to interest American Banks for rediscount arrangements with the Golddiskontbank. I therefore readily authorize you also to make it known that we have never charged anybody to act for the Golddiskontbank in this way and that we have hitherto not applied for any rediscount credit at all. If one day we should have occasion to take the initiative ourselves with a view to arrange a larger gold discount credit, we would address ourselves in the first place to your valued institution.

Permit me to give expression once more to the particular satisfaction I felt in seeing you here and at the same time to the hope that the friendly relations existing between us personally and our institutions may still have become closer through this interview.

With kindest regards

always yours faithfully

signed: Dr. Hjalmar Schacht.

ACKNOWLEDGED

SEP 24 1925

R S

52 CEDAR STREET
NEW YORK

September 23rd, 1925.

Dear Ben:

I enclose herewith Dr. Samuel McCune Lindsay's letter, which I found here on my return, also the copy of the letter which he has written to Schacht.

Please let me know as early as you can when I may come over and chat with you about the program to be developed in connection with Schacht's visit, also what your advice will be with regard to Lindsay's invitation.

Very sincerely yours,

Benjamin Strong

Hon. Benjamin Strong,
Governor,
Federal Reserve Bank of New York,
New York City.

Mr. Strong -

Dr. Lindsay telephoned yesterday to ask what could be done. I simply said you had not had opportunity yet to do anything, but that I would let him know

M.S.B.

PMW.H

FEDERAL RESERVE BANK

SEP 24 1925 10 37 AM

RECEIVED
GOVERNOR'S OFFICE

BOARD OF TRUSTEES

PRESIDENT
SAMUEL MCCUNE LINDSAY

V. PRESIDENTS
ALBERT JAW
PAUL M. WARBURG

SECRETARY
PARKER T. MOON

TREASURER
GEORGE A. PLIMPTON

ASST. TREASURER
ETHEL WARNER

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HENRY R. SEAGER
EDWIN R. A. SELIGMAN
WILLIAM R. SHEPHERD
MUNROE SMITH
HENRY L. STIMSON
FRANK A. VANDERLIP

EXECUTIVE SECRETARY
ETHEL WARNER

The Academy of Political Science
in the City of New York

KENT HALL, COLUMBIA UNIVERSITY
TELEPHONE MORNINGSIDE 1400, EXTENSION 81

September 21, 1925.

Mr. Paul M. Warburg,
56 Cedar Street,
New York City.

Dear Mr. Warburg:

Many thanks for your telegram from Washington.

I am sending the enclosed letter to Dr. Schaacht by the S/S. Mauretania sailing tomorrow, and I will call you up on Wednesday to talk about a cable. It may be that we can embody the substance of the invitation in a cable telling Dr. Schaacht that fuller details will reach him in my letter, and get his acceptance by cable before we can get a reply to the letter, so that we can announce him and prepare for him a place on our program.

I think in view of the topic, and the program that we have developed thus far, it would be a fine thing to have Dr. Schaacht here and that it would be a fine opportunity for him to meet some of our representative business and professional men, to say much or little about the present economic conditions in Germany and the relation of government to business, as well as to the outlook of business development in Germany.

With renewed thanks, and hoping to see you soon,
I am,

Yours sincerely,

Samuel McCune Lindsay
President.

ACKNOWLEDGED

SEP 26 1925

RR

52 CEDAR STREET
NEW YORK

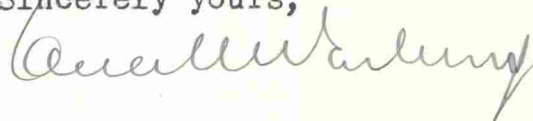
September 25, 1925.

Dear Ben:

Thanks for your letter. I quite agree with your conclusions concerning Doctor Schacht's attitude towards Doctor Lindsay's invitation, but let us get together about the program before there is a mix-up.

The Council on Foreign Relations would like to give Mr. Schacht a dinner. I strongly urge that he accept that. There is no publicity connected with these dinners, and talks are entirely informal, and I believe might be very useful.

Sincerely yours,



Benjamin Strong, Esq.,
Governor,
Federal Reserve Bank,
33 Liberty Street,
New York City.

PMW.N

ST. LOUIS, MISSOURI

NEW YORK

SEP 26 1925

FEDERAL RESERVE BANK

SEP 26 1925 11 AM

RECEIVED
GOVERNOR'S OFFICE

TO THE GOVERNOR OF THE FEDERAL RESERVE BANK OF ST. LOUIS

FROM THE FEDERAL RESERVE BANK OF NEW YORK

RE: [Illegible]

[Illegible text follows, appearing to be a memorandum or letter body.]

[Illegible text at the bottom of the page, possibly a signature block or distribution list.]

Ben Bernard



THE VISTA DEL ARROYO
PASADENA, CALIFORNIA

February 25th, 1927.

Dear Ben:

I inquired from Ben Jr, how you were getting along and am delighted to receive such favorable news through him. Keep it up, and by the time that we shall return from the Pacific Coast, may be we shall see you in New York full of your usual vim (which is so hard to control).

I was much interested to hear that Governor Norman paid you a visit. I am sure you must have had some fascinating talks with him, as always. But it is one thing ^{to} advise what should be done logically, and the other what foolish people will do, and this factor of human stupidity, that enters into all calculations, is a very disturbing one.

My stay here has been ruined by those fool articles of Carter Glass. I cannot say that "they got under my skin", because I have learned from a personal point of view to disregard all this petty stuff. But the thing that worries me is that Willis and Glass are permitted to lay down the only basis, on which the future historian will



THE VISTA DEL ARROYO
PASADENA, CALIFORNIA

-2-

build the record; and while I sympathize with Glass in his disgust at Col. House's book, he and Willis together have gone the same path as Professor Seymour and Col. House went, that is to say, they wrote a "romance" and presented it as "history". House's vanity, as presented in his book, was deplorable; but Glass and Willis are more than vain. They are wittingly spiteful, and while they have their hand in the other fellow's pocket, they call him names at the same time. It is all very well to turn the other cheek; but I find, if you do it too often, as I have done, people are getting too "cheeky".

I have laid the foundation here for a comprehensive answer, not by getting into a controversy with them on personal lines, but by presenting facts. However, what ultimately I shall do with this production of my "cranium", is doubtful. My waste-paper basket has swallowed more than one attempt on similar lines. This time, I am, however, in earnest!

Don't bother to acknowledge this; it is nothing but a greeting and an expression of my great pleasure at hearing such good news from you.

By the way, I congratulate you upon



THE VISTA DEL ARROYO
PASADENA, CALIFORNIA

-3-

McGarrah's acceptance. If the Board did not see its way clear to act on the lines that you and I had discussed, you will in any case find in McGarrah a man, who will be a very genial associate.

Nina joins me in fondest greetings.

Always sincerely yours,

Caull W.

Hon. Benjamin Strong,
Stuyvesant Road,
Biltmore Forest,
Biltmore, N. C.



THE VISTA DEL ARROYO
PASADENA, CALIFORNIA

Warbury

March 17, 1927.

Dear Ben:

Thank you for your two letters which I was very glad to receive. The best part is that you are giving me such good news about your progress. All the rest is less important.

Your advice is, as usual, wise. Whether I shall follow it, as usual, is, this time, doubtful. I have finished an article, and spent most of my leisure over it, instead of being a "wise guy" and play. Whether I shall have the heart of relegating it to the wastepaper basket, I do not know. I shall know better when I reach New York, and shall have had some time in between to mull it over.

Basil Miles wrote me, but I had already left for California. I shall be glad to talk to him when I return. I remember him very well and know all his excellent qualifications.

Nina joins me in wishing you everything that is nice and pleasant.

Always cordially yours,

Warbury

FILES DIVISION

MAR 26 1927

FEDERAL RESERVE BANK
OF NEW YORK

52 CEDAR STREET
NEW YORK

June 28th, 1927.

Dear Ben:

Thanks for sending me the re-draft of the Pratt resolution. Did you not want to say in the sixth line "but there was only one citizen who coupled a full vision....." I assume that the word "only" was left out through a typographical error.

Sincerely yours,



Benjamin Strong, Esq.,
Governor,
Federal Reserve Bank of New York,
New York.

NEW YORK
FEDERAL RESERVE BANK OF NEW YORK
GOVERNOR

FEDERAL RESERVE BANK
OF NEW YORK

JUN 28 1937 9 49 AM

RECEIVED
GOVERNOR'S OFFICE

Dear Sir:

I am pleased to advise you that the Board of Directors of the

Very truly yours,

JUNE 28, 1937

NEW YORK
25 CALVERT STREET

W. T. 11. 1 50M 2-28
FEDERAL RESERVE BANK
OF NEW YORK

TELEGRAM

WIRE TRANSFER
DIVISION

COMMERCIAL WIRE—INCOMING

Warburg
DECODED _____
CHECKED _____
COMPANY _____

ATTENTION _____

TRANSLATION COPY

136WUO 38

DD NEWYORK NYBAUG 13TH (1928) *read BS*

BENJSTRONG ESQ.

GOVERNOR F R B .

MANY HEARTY THANKS FOR YOUR GOOD MESSAGE WHICH WE ALL
GREATLY ENJOYED IT IS NICE TO KNOW YOU BACK IN
THE COUNTRY AND I WOULD ENJOY LAYING EYES ON YOU
SOME TIME SOMEWHERE WARMEST GREETINGS FROM ALL OF US

NINA L WARBURG 202PM

Warburg

52 CEDAR STREET
NEW YORK

June 29, 1927.

Dear Ben:

Do you remember the "Convention Providing for the Establishment of an International Gold Clearance Fund", which your humble servant originated in 1916 when on his errand to South America, - a convention, which was agreed to by several South and Central American states and our State Department, and was finally killed in the United States Senate with the connivance - or shall I spell it "con-knife-ance" of one Benjamin Strong?

It occurs to me that where the four leading central banks are in conference it might not be amiss to take up the thought anew, and study its possibilities. The Convention would do no more than to surround with international protection, in case of war, what you are doing today. As you are situated today, conceivably at least in case of war, gold held by you for account of other central banks, or gold held by other central banks for you, ^{might} ~~would~~ be confiscated or attached. If technically and legally the custo-

dian would be the representatives of a large group of powers (all signatories to the Convention, and all obligated by it to respect the right of the trustees to hold this gold as a sacred trust fund, even in case of war) I think that the central banks would be better protected. In any case, it could only improve their present status.

R. S. V. P. (which means, - Reflect
s'il vous plait!)

Sincerely yours,



Hon. Benjamin Strong,
Governor,
Federal Reserve Bank,
33 Liberty Street,
New York City.

n

