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WESTERN UNION



TELEGRAM

NEWCOMB CARLTON, PRESIDENT GEORGE W. E. ATKINS, FIRST VICE-PRESIDENT

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.

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Received at 62 Patton Avenue, Asheville, N. C.

1927 JAN 29 PM 8 41

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TELEGRAM TELEPHONED

NEWYORK NY 29

IN STRONG

STUYVESANT ROAD BILTMORE NCAR

WE COULD STAY LONGER BUT RELY ON YOU TO GO SLOW FOR
 SOME MONTHS TOWARDS REAL RECOVERY MUCH APPRECIATED USE OF
 APARTMENT AND SEND GREETINGS TO PHIL GOODBYE
 MONTAGU.

7095
Authorized P-Strong post
a 839a
mailed 2095

Bank of England,
London, E.C. 2.

8th February, 1927.

My dear Strong,

We have now received the annual salvo of speeches which we have become accustomed to expect from the Chairmen of our "Big Five", but it is only necessary to send you the Reports of the two which deal with a monetary problem in which we are both interested. These I send you herewith.

You will see that it is another case of thieves falling out and honest men coming into their own - with you and me playing the part of the honest men!

Believe me,

Yours most sincerely,

Hisouman.

Benjamin Strong, Esq.

PERSONAL.

Bank of England,
London, E.C. 2.

15th February, 1927.

Recd 7/23/27 -

My dear Strong,

After having looked at Europe from your side of the water, seeing as one does more easily the wood as a whole, it has been a little disappointing to come back and see the trees so clearly as one does here. The whole position is uncertain and perhaps halting, or so I judge it to be for two particular reasons: First, that we here are suffering from the after effects of the coal strike, which may be long or short to an extent which I cannot judge, and that the hopefulness natural to this time of year is dimmed by the situation in China. Secondly, that there is no decision in France and no prospect that I can see of action being taken.— indeed, it looks as if the French were growing more disposed to wait until the basis of some German settlement has become clear before they decide how to deal with ratification and with their internal position. This, you will understand, is merely a guess: I have not heard the prospects so defined in any quarter.

I am writing to-day to Mr. Harrison as to a visit to your Bank by our Chief Cashier, Mr. Mahon. This is in line with what we both feel as to the need for continual and growing personal contact. I hope the date I have suggested will turn out to be suitable in every way.

Robert Kindersley is sailing for New York by the boat that takes this letter and expects to stay there one or two weeks: his object is to make arrangements for the future as to the business of the New York House.

As regards Poland, I am wondering what is the outcome of Monnet's proposed visit to you at Biltmore and of Mlynarski's confabulations with the Bankers in New York. As the general question of Poland is often cropping up and particularly now that the relations between Poland and Germany seem to have worsened, I have told Mr. Harrison that it would be convenient if he would keep me generally informed.

Our market situation is not as comfortable as it ought to be. Excluding some foolish speculation on a small scale in one or two directions, the Stock markets are dull. The dollar-sterling exchange is weaker than one would wish to see at this time of year and just permits the shipment of market-gold to New York now that the freight has been slightly reduced. Money is rather too easy to make our 5% rate at all effective, and it would be difficult to make it effective with the general expectation of a reduction in your rate; for the maturity of a three months' bill falls long after the 1st April when easier conditions are traditionally to be expected.

Please urge Phil to write me a couple of lines now and then about his father, for this is just what he promised to do.

do. And let me add that it was well worth a trip of 3,000 or 4,000 miles to spend those days with you at the Carpenter Cottage.

With great thanks and affection,

Yours most sincerely,

Ribman.

Benjamin Strong, Esq.

I hope G. M. G. has gone into the fold
on a satisfactory basis & understanding?

[C O P Y]

Feb. 26, 1927

PLAZA ATHENEE
25, Avenue Montaigne
Paris

My dear Ben,

After 48 hours here (less two, to be precise) I am soon going on to Berlin + thence perhaps to Bruxelles, depending on how much of a grind it is. Of course it (traveling + talking) does keep one on the stretch most of the time.

I came away now because it will be more difficult to do so later (Lubbock, Trotter change, for instance) + because I am now pushed out of my own house (Plodge). I must have told you of the dangers which suddenly appeared in several places in the wiring, any one of which might have set the whole house on fire at any time. I shall not be able to occupy the house again till the middle or end of March. And on top of this Amy has collapsed: Several weeks in bed: many weeks rest + yet nothing definitely the matter: Very disappointing + troublesome for you know Amy is the hub of the Universe!! nothing less.

Here things have of course greatly improved + yet are disappointing. All the internal things are better... indeed good... Taxes- Budget-short-debt-Circulation-~~devisen~~- price-levels +c. Yet the two crowning acts (to which these others should be merely introductory) are not in sight. There is apparently no date + no plan for either ratification or stabilisⁿ. The present Parliament lasts till the middle of 1928 + it seems we are to wait for the next! Poincaré is ready to do anything but take the plunge! So Europe + the world are to wait indefinitely, with the franc more or less pegged - until Poincaré makes up his mind to act with a new parliament (or possibly with this one) or until he is pushed out... by cumulative uncertainty + disappointment + perhaps by some wobbling of the Exchange? What I can't get at is the real underlying reason for such delay: it can't simply be parliamentary opposition: nor the personal disgrace of "devaluing" the franc: nor lack of advice nor desire for permanent office on the part of Poincaré. What is it? I cannot understand the Gauls. I suspect some undefined truth in what I wrote to you a week or so.. as a mere guess.

I wish greatly to know what is happening to your pulse, + sleep + pins + breathing.. + not a word have I heard for 4 weeks! I wish also to know your general plans as soon as they begin to form themselves - for spring + summer - for your next move + for a later vacation.

At home the continuing burden of the coal strike: the prospects of the Budgets (still rather uncertain) + the scale of expenditure (capital as well as current) make me uneasy... just as they seem to tickle the fancy of your friend W. Churchill! Added to this we in London are feeling a general malaise which springs, I suppose, from China + Moscow + is vague + undefined. On the other hand the N.Y. position + market seems wonderful.

Goodbye, old man.
Ask Phil to write a line.
+ be sure I am Yours
[signed] MN

Feb. 26. 1927.

PLAZA ATHÉNÉE

25. AVENUE MONTAIGNE

PARIS

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PLAZA ATHÈNÉE

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PARIS

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PLAZA ATHÉNÉE

25, AVENUE MONTAIGNE

PARIS

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Goodbye, old man..

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Be sure I am yours

Herl.

PERSONAL.

Bank of England,
London, E.C. 2.

12th March, 1927.

My dear Ben,

I was glad to have the cartoon which is enclosed in your letter of the 16th February because, apropos of yourself, someone had mentioned it to my Mother and I had promised to get her a copy.

I was glad too to have your letter of the 15th, and whatever you may say about yourself I can judge from the number of letters you are writing that even if you are as depressed you are a deal more energetic than you were a couple of months ago! I take it as a good sign and so I may tell you do Schacht and Moreau, both of whom happened to have heard from you a few days before I saw them.

I am still waiting to hear something more or less definite about Poland, and if he has not sent me word by the time this reaches you, I hope you will give Harrison a reminder. Here the whole question of Poland seems to be entirely quiescent, and so it was, I believe, at the recent League meeting at Geneva.

Generally speaking, 1927 is going to be a barren and disappointing year for Europe. The plans we had vaguely made or thought about a couple of years ago are receding towards the horizon. Stabilisation and reconstruction, which

have

PERSONAL

Page 2.

Benjamin Strong, Esq.

[12th]
15th March, 1927.

have been the vogue since the League first dealt with Austria, have for the time being passed out of fashion. In greater or less degree this is true as regards Poland, Serbia, Greece, Roumania, Italy and France, and the effect on the Anti-Tariff Conference, planned more or less deliberately by the League for this summer, will I fear be adverse: you cannot of course expect Anti-Tariff changes without exchange stability having been assured. And just as Paris sets the fashion for silk stockings and hats, so has she now set the fashion against stabilisation (and indeed ratification) and in favour of wait and see. This is the third time M. Poincare has seemed to hold Europe at bay - Cannes, Ruhr and now. If, therefore, we are to continue to enjoy the authority of M. Poincare, we must wait in patience for stabilisation for perhaps a year. This is the story, though told in less graphic and more impersonal fashion, that I heard at the Bank of France. I repeat it to you as such.

M. Moreau also talked about varying the Agreement under which the Bank of France has to repay the Bank of England over the next few years. As far as I can see, it is not likely that anything will come of his proposal just at present.

As to Berlin, you know as much as I do - even whether McGarrah will be able to continue at the Reichsbank, as seems to be the hope of all his colleagues? As to Brussels, there

PERSONAL.

Page 3.

Benjamin Strong, Esq.

15th March, 1927.

there seems to be no fly in the ointment, except that in the shape of funds, they have too much ointment!

The best to Phil and yourself and be sure to keep me informed of your thoughts and plans.

Yours most sincerely,

W. H. C. W. H. C.

Benjamin Strong, Esq.

P.S. I must have told you that I was evicted from Plodge on arrival from N.Y. - owing to faulty electric wiring - and shall hardly be able to live there again before next month.

W. H. C.

PERSONAL

Bank of England,
London, E.C. 2.

14th March, 1927.

My dear Strong,

I now come to try and answer your personal letter of 18th February which concerns practically nothing but the amalgamation of our Note Issues. I will answer you frankly but vaguely because, though the question of principle seems settled, the means of carrying out that principle are in a state of flux.

Thus the principle (of amalgamation) having been settled, we were expecting throughout last fall and winter that the method of amalgamation would have been decided by some sort of committee of enquiry to be set up last month for the purpose. This committee would have made recommendations as to the amount of the future fiduciary issue, as to the security for the enlarged issue, the division of profits and so forth. Personally, I expected that this committee of enquiry would have been appointed in just the same way as the Chamberlain Committee which considered the return to the Gold Standard in 1925: namely, a small committee appointed by the Chancellor of the Exchequer to advise the Government, the Cabinet and himself and empowered to take as much evidence as they might decide. Eventually the report of such a committee would be published but their hearings would not be public.

I have now come to believe that although such

PERSONAL

Page 2.

Benjamin Strong, Esq.

14th March, 1927.

a committee of enquiry will eventually be appointed, we shall have to wait at least till the summer. The main reasons for this postponement are the uncertainties with which we are confronted at the present time and which were not anticipated six months ago: to mention only two - China provides a disturbing and most uncertain future; and the Budget which is uncertain but can hardly fail to lead to much controversy inside and outside Parliament when the new Finance Bill comes to be discussed.

As regards the advice which we at this Bank would give to such a committee of enquiry; we should urge that the principles of the Act of 1844 be maintained especially with regard to the separation of the Issue and Banking Departments and a fixed maximum for the fiduciary issue: thus we accept the recommendations of the Cunliffe Committee and of the Chamberlain Gold Standard Committee. Of course we should recommend an increase in the fiduciary issue commensurate with the Currency Note issue which is to be turned over to the Bank: perhaps we should recommend that such fiduciary issue be a decreasing total over a period of five or ten years. And ignoring a number of details which would fall to be discussed, I need only further say that we should oppose in any hearings a return to the circulation of gold coin and should approve the Treasury retaining its War-powers to authorise a temporary excess issue of Notes in an emergency.

PERSONAL

Page 3.

Benjamin Strong, Esq.

14th March, 1927.

So far as I can judge, the number and influence of those of the public who wish to depart from the principles of the 1844 Act are almost negligible: they include one Banker (as you know) who is too assiduous in airing his views: certain professors who no longer convince or even tickle the public: doubtless a number of manufacturers and exporters in the North whose attitude is more understandable than reasonable, and others, mainly cranks, who think in solitude more than they mix and argue with others. Thus, though the whole subject is bound to be extremely controversial I believe that, given a continuation of normal conditions, the great mass of our people favour a continuation of the present principles - enlarged to such an extent as to amalgamate the Bank and Currency Note Issues. I will not attempt to argue why we think this better than any scheme which would give some so-called 'element of elasticity to the note issue'. It would take me hours to write a letter on the subject, but I send you a copy of the current Bankers Magazine which has a pertinent article on this subject. Nor, picking up the thread of your letter under reply, do I really believe that the principle upon which the future amalgamated note issue is to be conducted will really turn out greatly to affect the position of the Bank of England vis-a-vis the Joint Stock Banks. But this again is a long story and I won't stop to argue it.

If,

PERSONAL

Page 4.

Benjamin Strong, Esq.

14th March, 1927.

If, on the above or other lines, you could give us any information, advice or material, you know better than I do how helpful it would be, or if in opposition you would express any opinions, they would receive the greatest consideration if not as great a welcome! What more can I say? And so for the moment I remain

Yours,

W. S. Woodman.

Benjamin Strong, Esq.

PERSONAL.

Bank of England,
London, E.C. 2.

15th March, 1927.

My dear Strong,

I am now in a position to ask your kindly help in connection with a question which you and I have discussed on several occasions, and which I know has your approval in principle.

We have long admired your methods for the collection and preparation of statistics and such like information; we have now made a beginning here but we feel that through lack of the necessary knowledge and experience we are not making the best use of our opportunities. Those of my colleagues with whom I have discussed this question have therefore come to the conclusion that as a beginning and as an exception the help of an outsider should be obtained: so the point arises to whom we should turn.

The experience and eminence of Dr. Stewart have led us to consider his name first. We are aware that after working for several years with the Federal Reserve Board in Washington, Dr. Stewart is now engaged with a firm of New York Brokers, but this engagement I believe to be quite temporary. If, therefore, you are willing and able to help us in this early stage, I beg you to ascertain privately whether Dr. Stewart would welcome an invitation from the Bank of England to come at an early date and reside as a visitor in London for, say, a couple of years; to assist in building up a statistical and information office; to

advise

PERSONAL.

Page 2.

Benjamin Strong, Esq.

15th March, 1927.

advise what and where material should be collected and recorded, and to show how the information thus collected could from time to time be used to the best advantage by the Bank of England.

On our part we should wish to treat Dr. Stewart with complete confidence, and should therefore have to ask him (as is usual in such cases) for assurances of secrecy. We should, of course, provide in the Bank accommodation, all the paraphernalia of work and such assistance as he might require. We should like to welcome him at luncheon every day, but should wish him to be free to go elsewhere at home or abroad in the interests of his subject. Briefly, we should like Dr. Stewart to come here, to make friends with us on a basis of give and take, and to teach us how best to establish an information office for the benefit of ourselves and our successors. And for this we should, of course, be prepared to pay whatever was a proper annual fee.

Thus I have perhaps said enough to open this question, and if you will be so kind as to tell me what to do next, be it positive as I hope or negative as is possible, I shall be greatly obliged. But in any case do your best with Dr. Stewart.

Believe me,

Yours most sincerely,

dlivoman

Benjamin Strong, Esq.

P.S. I should

PERSONAL.

Page 3.

Benjamin Strong, Esq.

15th March, 1927.

P.S. I should perhaps mention two points in this connection: first, such a proposal regarding anyone who is non-British is in our case unprecedented and would not be possible if the position were to be permanent; to me this makes it seem the more important: second, only a few of my colleagues are as yet aware of this letter and so you will please be especially discreet.

dir.

PERSONAL

Bank of England,
London, E.C. 2.

25th March, 1927.

My dear Strong,

There are one or two points in your personal letter of the 25th of last month which I have been meaning to pick up. For instance, paragraph 2: Nothing whatever is being done here to stop or impede the issue of Foreign Loans - except of course in the case of debtors with unsettled accounts, e.g., France and Serbia. I do not know why more Foreign Loans have not been issued during the last month or two, a fact which I regret. I believe the main reason to be that the class of Loan which has been sought is not up to the Bankers' standard in one way or another.

Your paragraph 6: The sterling exchange has behaved in just the way we expected it to do: it started the year weaker than would be normal because of the after-effects of our Coal Strike: its improvement was impeded by China; but slowly the exchange rate is growing firmer: it should perhaps be only a question of weeks before the quotation begins to approach parity.

I think it is true that the French Line cut or offered to cut freight rate on gold to New York. Indeed, I believe a shipment was made possible by this cut. I believe also that the English and probably other Lines would ^{or did offer to} meet this competition. I have not enquired minutely into this because I do not see what there is to be done: in other words, it is most doubtful if all Lines would

combine

PERSONAL

Page 2.

Benjamin Strong, Esq.

28th March, 1927.

combine to keep the freight up and short of that one would only be asking favours of certain friendly Lines and leaving the others to go their own way? Is there any solution but freedom?

We have been resolutely following a firm rate policy during the last six or eight weeks: that is to say, the maintenance of the ^{official} 5% rate with the private rate of discount between $4\frac{1}{4}$ - $\frac{1}{2}$: to this policy I attribute in a great measure the gradual recovery of the sterling exchange. But it has not pleased everybody, especially those who have no book to keep and a pot of ink for a weapon. They are disposed to maintain that the proper policy would have been to have put the ^{official} rate to 4%, to have allowed money to find its own level, to ship gold freely to New York and elsewhere and, finally, to find ourselves on a new basis. I do not quite understand where this policy would end nor whether we should eventually be standing on our heads or our heels.

The Whaley-Eaton circular of 21st February shows again that a little knowledge is a dangerous thing. But their solution to an inevitable conundrum is more amusing than creditable to their information service!!

Harrison is due here this evening and it was a very happy and kindly thought that he should make this trip. I cannot overstate his welcome. But I write this without having talked with him, and whether or not I am able to sign it for to-morrow's mail it is none the less written before his arrival.

When

PERSONAL

Page 3.

Benjamin Strong, Esq.

28th March, 1927.

When writing to you on the 12th March, I said that in my discussions with Moreau he had included a vague scheme for varying the Agreement under which the Bank of France has to repay the Bank of England over the next few years. Nothing came of his proposals which were tentative and did not seem clear enough to be attractive. But he is making fresh proposals and I hope we shall find a satisfactory way of dealing with this old War Credit once and for all.

With kindest regards,

Yours very sincerely,

W. Roman

Benjamin Strong, Esq.

* all lines seem now to be quoting $\frac{3}{16}$ % Westbound
 $\frac{1}{4}$ % Eastbound
or even $\frac{3}{8}$ % -

portrait may be obtained?
either for a handful of silver
or for a sweet smile?

This is not a business letter
but it is very serious!

Seems you have neglected
one of your duties?

Needs your prompt attention.

Ever yours

M.M.

2 April 1927

Thorpe Lodge, Campden hill, W.8.

A portrait by Gari Melchers
Exhibited at the Century Club

Dear Ben

Could you throw any light
on the above Exhibition & on
the subject of any particular
portrait which was there ?

Could you indicate the address
where copies of any such

portrait may be obtained
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M. N.

C O P Y

8. April 1927.

BANK OF ENGLAND

My dear Ben

There is a particular question about which I write this note -- at the earliest possible moment.

I do not know precisely on what lines our Committee will recommend changes in form of personnel of our administration of the Bank. But it is clear that they will decide in favour of help from outside for dealing with outside matters, e.g., reconstruction, League, etc. We made a step in this direction last year through the arrangement with Siepmann -- which has been very successful.

Now there seems every chance that we shall make another step to take effect after the summer. You know Niemeyer: he has an established position, great ability, and is aged about 44. He does not mean to stay much longer at the Treasury and could get a good job any day. So he is to come here, permanently, to do League work in particular and other work in general. I think he will be a great addition and I hope the idea will be carried out this year: so far nothing is definite and everything secret. I have not said anything to Harrison or indeed to any others except our inside friends, but believing this to be a step in the right direction, I wish you to know and approve it.

With love

(Signed)

M. N.

Confidential file

8. April 1927.

Bank of England

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Bank of England

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With love

Alin.

12th April, 1927.

*

Dear Mr.Governor,

For the sake of regularity I write to advise you that Mr.H.A.Trotter's term of office as Deputy-Governor expired on the 5th instant and that Mr.Cecil Lubbock has been appointed in his stead.

A specimen of Mr.Lubbock's signature is appended although it may possibly already be known to you.

Believe me, dear Mr.Governor,

Yours sincerely,

(SIGNED) M. NORMAN.

Benjamin Strong, Esq.

(Signed) CECIL LUBBOCK.

Mr.CECIL LUBBOCK will sign _____

ms.

April 17, 1927

THORPE LODGE
Campden Hill, W. 8.

Dear old Ben,

This is Easter Sunday and a good one too. I am at Chequers alone with the Baldwins: he has been tired lately and has, of course, many troubles on his back and ought to take all the care of himself that is possible, for he is (I think) the great asset of this country. And, what's more, he always asks about you!

I last wrote to you about Niemeyer and hope things will be fixed up with him in a few days. After he has taken up the job as a Comptroller (alongside of Harvey) I should like later to get our Rules altered and make them both into Directors as well as Officers: And so by degrees have half a dozen such Officers — some or all of whom might gradually become Directors too so that we should have a group of whole-time professionals on the Court. This is the line which I hope will be taken by the Committee you know about when they make a Report next month. But you know the idea is only adopted slowly and perhaps unwillingly by some of our friends.

I hope Miller will give a good Report about you when he goes over you these days. Then you can make some plans for summer and let me know them without delay. If you are not coming to Europe, I will come across the ocean and see you in June or July. Schacht is willing to do the same — as we both told Harrison to tell you. I shall not write about Poland because Harrison knows all about it. He is a delightful companion and a great help to you, I am sure. But Poland is a most difficult problem from this end and touches so many wheels within wheels that it is a question about which I — as an individual — can only proceed with caution and cannot speak with certainty.

I am very pleased indeed that the Bank of France are now going to repay us entirely: it is almost more than I dared to hope when Moreau and I began to discuss the idea and it relieves us of the last serious lock-up of the war or post-war period.

Your last letter speaks of the doings of some folks in Wash. and of your work nearing its end, but I don't see who is to take over your burden? Please tell me what you have in mind. I still see no early prospect of definite action in France and though (as in the case of Poland) some European questions are difficult, there are a good many waiting. And, after several talks with Monnet, I am wondering if the Financial Committee of the League could not turn itself around somehow and join hands with some of your people and from a changed or wider

angle do more useful work. For reconstruction needs an outside body of some sort which can continue for many years to exercise a wide and impartial authority behind anything the Central Banks may do.

Write me your ideas before your fears take effect and competition squeezes out cooperation.

I hope to get back to Plodge within two weeks and I hope Amy will be well enough to come back next month. As to myself, I am well but rather tired.

Much love to you,

(Signed)

M. N.

apl 17. 1927.



THORPE LODGE
CAMPDEN HILL. W. 8.

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Next write to you about Niemeyer & hope
things will be fixed up with him in a few days.
After he has taken up the job as a Comptroller
(alongside of Harvey) I should like later to
get our Rules altered & make them both into
Directors as well as Officers: And so by degrees
have half a dozen such Officers - some or all of
whom might gradually become Directors too

so that we should have a group of whole time
 Professionals on the Court. This
 is the line which I hope will be taken by the
 Court^{ie} you know about - when they make a
 Report next month. But you know the idea
 is only adopted slowly & perhaps unwillingly
 by some of our friends.

Thorp Miller will ~~go~~ give a good Report
 about you when he goes over you these days.
 Then you can make some plans for summer
 & let me know them without delay. If you
 are not coming to Europe I will come across
 the ocean & see you in June or July. Schacht
 is willing to do the same - as we both told
 Harrison to tell you. I shall not write
 about Poland because Harrison knows all

N/S 4/11
about it. He is a delightful companion & a

THORPE LODGE
CAMPDEN HILL. W.8.

Great keep to you, I am sure. But Poland is a most difficult problem from this end & touches so many wheels within wheels that it is a question about which I - as an individual - can only proceed with caution or cannot speak with certainty.

I am very pleased indeed that the B of France are now going to repay us entirely: it is almost more than I dared to hope when Moteau & I began to discuss the idea & it relieves us of the last serious lock-up of the war or post-war periods.

Your last letter speaks of the "dumps of some folks in Wash." & of your work nearing its end - but I don't see who is take over your burden? Please tell me what you have in mind. I still see no early prospect of definite action in France & though (as in

(the case of Poland) some European questions are
difficult, there are a good many
waiting. And, after several talks with Moanet,
I am wondering if the Financial Com. of the
League could not turn itself around somehow &
join hands with some of your people & from a
changed & wider angle do more useful work.
For reconstruction needs an outside body of some
sort which can continue for many years to
exercise a wide & impartial authority behind
anything the Central Banks may do.

Write me your ideas before your fears take
effect & competition squeezes out cooperation.

I hope to get back to Plodge within two
weeks & I hope Army will be well enough
to come back next month. As to myself, I
am well but rather tired. much love to you

Rip.

PERSONAL.

Bank of England,
London, E.C. 2.

28th April, 1927.

My dear Strong,

I thank you for all the information in your personal letter of the 15th which has been submitted to those of my Colleagues who are acquainted with the contents of the letter to which you are replying.

I should be glad to discuss with Dr. Stewart the whole question either in London at his convenience or in New York if I should be so lucky as to pay you a visit this summer.

Assuming Dr. Stewart were willing and able to start in London by the 1st January next (and the sooner the better), I could be authorised to offer him in one form or another something between £5,000 and £10,000 a year for two, or perhaps three, years: or even longer if so arranged by mutual agreement. Before I attempt to define the amount and method of these payments, Dr. Stewart should consider his liability to taxation in one or perhaps both countries, and we might be able to make the payments in such way as would be least onerous to him.

As to his prospects of contact with myself, any answer must depend on our internal arrangements over the next few

PERSONAL.

Page 2.

Benjamin Strong, Esq.

28th April, 1927.

few years, and as to these you are pretty well as much informed as I am. But it would be the wish of my Colleagues, as well as of myself, that Dr.Stewart should have a complete insight into all available facts and figures and into the whole position of the Bank of England. Personally, I believe that in due course he would come to exercise considerable influence upon the policies and operations which would evolve from his information and studies.

Thus I have answered, briefly, your letter. I trust that I have gone far enough to enable you to go a step or two further, as you have encouraged me to do in respect of dates and compensation. But speaking for myself, I am willing to suggest any other arrangements than these if by so doing we can reach a whole-hearted and friendly basis of confidence and thus ensure the assistance of Dr.Stewart not only towards the underpinnings and foundations which he has in mind but towards the building of a well-rounded superstructure.

With great thanks for what you have already done, I beg you to serve once more as an intermediary between Dr.Stewart and ourselves.

Yours most sincerely,

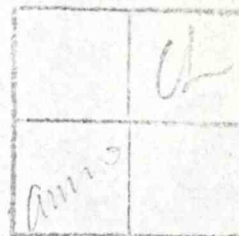
Hoivoman.

Benjamin Strong, Esq.

CONFIDENTIAL

S.S. "BERENGARIA"

7.5.27.



5th May, 1927.

*

Dear Mr. Governor,

I beg to refer to the cablegram despatched to Mr. Case on the 5th ultimo regarding the credit for \$200 million which was granted by the Federal Reserve Bank of New York to the Bank of England in May 1925. In accordance with this cablegram, no use has been made of the credit or will be made before the 14th instant, the date when it will automatically expire. Furthermore, there will be no need to ask the Federal Reserve Bank to grant a renewal of the credit for, as you are aware, the Bank of England have deliberately built up a substantial reserve in dollars with a view to avoiding any possible embarrassment to you by a request for renewal of the credit. I understand that Messrs. J.P. Morgan & Co. are similarly being informed that His Majesty's Treasury will not need to renew the credit arranged through their Firm.

I take this opportunity of expressing to you our gratitude, not only for the credit granted to the Bank of England but also for the terms under which it was arranged. In our opinion the credit, in conjunction with that raised by

His

CONFIDENTIAL

Page 2.

Benjamin Strong, Esq.

5th May, 1927.

His Majesty's Treasury, has contributed in large measure to an effective return to the gold standard.

Believe me,

dear Mr. Governor,

Yours most faithfully,

(Sd.) M. NORMAN

Benjamin Strong, Esq.

PERSONAL.

Bank of England,
London, E.C. 2.

7th May, 1927.

My dear Ben,

By degrees the letters you have been writing have accumulated until suddenly I realise that here are half-a-dozen on blue paper and one on white paper. The change from blue to white I take as a good sign - you would not have gone from Atlantic City to Liberty Street without knowing what you were doing and without believing you could do it. Most of these letters are answers to something I have written to you: for instance, those of the 29th March, and 15th, 20th and 25th April, about which I need say no more, but thanks.

The Whaley-Eaton note enclosed in your letter of the 12th April was rather unpleasant: several friends from roundabout here came to speak about it - one indeed declared that it came from McKenna and he knew it did!! In another letter you hinted that something might be done about these efforts of Whaley-Eaton but I do not see what. On the whole I believe they do less harm in the long run to the good than to the wicked; so I should propose to combine silence with patience.

Passing now to your letter of the 14th April, the report from Dr. Miller is admirable because it says that your condition is perfectly satisfactory. But as to the tax imposed
under

PERSONAL

Page 2.

Benjamin Strong, Esq.

7th May, 1927.

under your last Revenue Act on the income from Bills of Exchange, I must mention that an amendment of your Law so as to relieve foreign Central Banks of this tax where they in turn relieve you of a similar tax would be a doubtful and, perhaps inadequate way out of our difficulty. I wonder if it would be enough for Vissering and Bachmann? It is, of course, perfectly true that in fact we do not charge you with tax on any discount you may earn in London from Bills of Exchange or from Treasury Bills: in law I guess you may be liable to income tax in both cases: in practice (in the case of a non-resident foreign Central Bank or non-resident foreign Bank) this tax is not collected - indeed, no attempt is made to collect it. The whole question is very complicated and at our end we wish to let sleeping dogs lie; we believe there is no danger of you, (as a non-resident foreign Central Bank) being required to pay income tax on income from Bills of Exchange or Treasury Bills held in London.

I was in Paris a few days ago to meet several of our friends, as you know, about Poland, and I hope a way out has been found. Thence I came back for the first time to Plodge, whence these durned electricians have at last been expelled. But though they have brought light into darkness,
they

PERSONAL

Page 3.

Benjamin Strong, Esq.

7th May, 1927.

they have also brought disorder into order and left a number of permanent blemishes and souvenirs of one kind and another which I could well do without!

If the Melchers picture turns out to be too large for Katherine, we would be glad to give it a home here where space is unlimited and admirers numerous. You need not even have the lower part of the face improved before you send it! But you must please let me know your summer plans pretty soon.

Yours most sincerely,

W. C. Corman.

Benjamin Strong, Esq.

Bank of England

12th May, 1927.

My dear Strong,

This is a somewhat tardy acknowledgment of your welcome letter of the 28th April sending press clippings on the subject of our recent rate reduction. The form in which you present them is as pleasing as the act is kind.

Believe me,

Yours sincerely,

DeVroman.

Benjamin Strong, Esq.

Noted by library (who prepared).

COPY

THORPE LODGE
Campden Hill, W. 8

Sunday,
May 22, 1927

Dear Ben,

1. I have not heard much of you these last days. I guess because you have been in Washington for the meeting. Three weeks ago, you wrote and took me to task for keeping Lubbock out of the Polish business and other such discussions. I don't think this complaint against me is well-founded (less so perhaps today than in the past). Lubbock has much work of his own to do and cannot take an active part in all I try to do as well as keep up with his own work. In principle, he knows about Poland -- in detail he does not: he deliberately avoids it and leaves Siepmann to study the whole matter. It is Lubbock's choice -- not mine. But it is true all the same that there are some current matters (such as Poland) with which Lubbock could not make himself familiar in detail at present, and which should be left to Siepmann, Harvey, Niemeyer, and Cecil Lubbock himself takes this view. I hope you do.
2. I am most anxious to know your summer plans. By the beginning of August I must be back in London and Lubbock will be going away. During June and July I am at your service if you will only let me know your wishes by cable, but the time is near when I must make my own plans, either for America or Europe.
3. I am now settled again at Plodge but Amy is still away and not well enough to come back. A breakdown is a mysterious illness -- difficult to explain and still more difficult to get rid of.
4. I wish I knew what was happening in Paris: the foreigner, perhaps the speculator, has taken charge of the franc and I rather doubt if Moreau can withstand him. No country yet has been able to peg the Exchange over a long period without stabilisation, and I wonder if France is an exception? The dam bursts either at the top or at the bottom. Meanwhile Moreau, in trying to save himself, is playing havoc in London. First (to frighten the foreigner) he refused to sell devisen but continued to buy at his fixed rates -- with the result that the European demand for dollars fell on the London market alone and the dollar-sterling exchange suffered down to gold export and by the market (just when we were climbing up nicely). Secondly (again to frighten the foreigner) Moreau has begun to buy and earmark gold here with part of his sterling balances -- with the result that this market is squeezed and that our gold reserves are diminished and we may be seriously inconvenienced if he continues (for he has huge balances in London). This is all secret and upsetting. His demand for gold is capricious; quite independent of the rates of exchange and at present as difficult to explain as to justify in our sensitive market. Moreover, the offending foreigners are not British but Dutch, German, and etc. Yet all the trouble falls on London: What it is to be the only free gold market in Europe. Once the speculators believed that Moreau is in a hole, they will give him no mercy -- none at all..
5. I do not write about Poland because I know nothing since seeing D. Morrow in Paris and here and he can tell you all. I was surprised that he would have nothing to do with it, except to exhort others. Meanwhile there seems to be no work on the details of Harrison's scheme. Perhaps Kindersley will go along with Monnet and the other private Bankers -- that seems to be the last idea.

Schacht has been having his own troubles in Berlin, but for the moment is winning. There is, of course, much controversy about his methods, perhaps due to Dawes and reparations on one side and Central Banking on the other.

7. Of course, the future of the League is difficult but there are financial problems to be solved -- and I agree with Monnet and Morrow that they could not easily be solved by personal and continuous help from the likes of you (both in America or Europe). I wish you luck with McG. and hope the Bombers in Washington will be smoked out.

With greetings and love and
waiting to know your plans, I am

(Signed) M. N.
[Montagu Norman]

Sunday.
Mar 22. 1927

THORPE LODGE,
AMPDEN HILL. W. 8.

My dear Ben. I have not heard much of you
these last days: I guess because you have been in
Washington for the meeting. Three weeks ago
you wrote & took me to task for keeping Lubbock
out of the Polish business & other such discussions.
I don't think this complaint against me is well-
founded, ^{perhaps} (less so today than in the past). Lubbock
has much work of his own to do and cannot
take an active part in all I try to do as well
as keep up with his own work. In principle he
knows about Poland - in detail he does not: he
deliberately avoids it & leaves Siepmann to study
the whole matter. It is Lubbock's choice - not mine.

But it is true all the same ^{that} there are several
current matters (such as Poland)
with which Lubbock could not make himself
familiar in details at present, & which should
be left to the Siepmann, Karwey, Niemeys &c &c
Lubbock himself takes this view: I hope you do.

2. I am most anxious to know your summer plans.
By the beginning of August I must be back in
London & Lubbock will be going away. During
June & July I am at your service if you will only
let me know your wishes by cable. But the time
is near when I must make my own plans, either
for America or Europe.

3. I am now ~~pro~~ settled again at Ploeghe but Amy
is still away & not well enough to come back.
a break down is a mysterious illness - difficult
to explain & still more difficult to get rid of.
I wish I knew what was happening in Paris -

the foreigner, perhaps the speculator has taken

THORPE LODGE, change of the franc & I rather
 AMPDEN HILL, W. S.

doubt if Moreau can withstand him. No

Country yet has been able to peg the Exchange
 over a long period, without stabilisation & I
 wonder if France is an Exception? The dam
 bursts either at the top or at the bottom.

Meanwhile Moreau, in trying to save himself,
 is playing havoc in London. First (to frighten
 the foreigner) he refused to sell devisions but
 continued to buy at his fixed rates - with the
 result that the ^{European} demand for dollars fell on the
 London market alone & the Dollar - Stg Exchange
 suffered down to gold exports by the market
 (just when we were climbing up nicely)

Secondly (again to frighten the foreigner) Moreau
 has begun to buy a German gold ^{here} with part of
 his sterling balances - with the result that

his market is squeezed & that our gold Reserves⁴ are diminished & we may be extremely inconvenienced if he continues. (for he has huge balances in London)

This is all secret & upsetting: his demand for gold is capricious; quite independent of the rates of Exchange & at present as difficult to explain as to justify in our sensitive market. Moreover the offending foreigners are not British but Dutch, German & ac - yet all the trouble falls on London! What it is to be the only free gold market in Europe! Once the speculators believed that moreau is in a hole, they will give him no mercy - none at all!!

5. I do not write about Poland because I know nothing since seeing S. Morrow in Paris & here & he can tell you all. I was surprised that he would have nothing to do with it, except to exhort others. Meanwhile there seems to be no work on the details of Harrison's scheme

Perhaps Kniderobly will go along with Monnet⁵
& the other private Bankers - that seems to be the
THORPE LODGE,
AMPDEN HILL, W.8. Last idea.

6. Schacht has been having his own troubles in
Berlin but for the moment is winning. There is
of course much controversy about his methods:
perhaps due to Dawes & reparations on one side or
Central Banking on the other.

7. Of course the future of the League is difficult
but there are ^{financial} problems to be solved - & I agree
with Monnet & Motzow that they could not
easily be solved by personal & continuous help
from the likes of you (both in America & Europe)

I wish you luck with McQ. & hope the Bombers
in Washington will be smoked out.

with greetings & love
& waiting to know
your plans, I am Mrs.

PERSONAL.

Bank of England,
London, E.C. 2.

31st May, 1927.

My dear Ben,

During the last few days I have received your personal letters of the 16th and 18th of this month telling me of your talks with Dr. Stewart. I gather that owing to your kindness and helpfulness as a go-between, it is now open for me to write direct and tell Dr. Stewart of our ideas. This I will do. I shall of course expect to see Dr. Stewart on your side of the water and thus to answer any queries or give any explanations he may need: this will be much more satisfactory than a long correspondence with him.

I may as well take this opportunity to acknowledge your separate letter of the 18th May, enclosing a copy of your letter to Dr. Schacht. By way of answer, I can only say that I intend to make it my business to sail hence during the second half of next month, to be at your disposal off and on for the greater part of July so as to return to London not later than the 1st August. You must make some decent arrangements about a place to which we can withdraw: it will never do to be stewing in New York with newspapers and reporters and visitors as well as probably a heat wave!

Incidentally, I notice your remark in this
letter

PERSONAL.

Page 2.

Benjamin Strong, Esq.

31st May, 1927.

letter that "no letter commenting on developments is of any value
"by the time it arrives". You are referring to the exchanges,
gold and the Continental situation and I entirely agree with you.
But lower down you wish me to write to you of what is going on.
Agreeing as I do with your earlier statement, I would rather you
excused my responding to your latter request, because you will find
all that I could write to you to-day in the cable I sent to you
yesterday. If there are any obscure points in it you can clear
them up by cable in the course of 24 hours, whereas if I were to
write you an essay on the same subject it would surely be only a
dead horse for you to flog by the time it arrived.

Yours most sincerely,

Hirshman.

Benjamin Strong, Esq.

PERSONAL.

Bank of England
London, E.C. 2

7th June, 1927.

My dear Ben,

In continuation of my letter of the 31st May, I write to send you by the same mail a copy of the letter which I have written to Dr. Stewart. Your name of course is taken in vain, for which, as well as for your help, many thanks.

Yours most sincerely,

Divman.

Benjamin Strong, Esq.

CLASS OF SERVICE

This is a full-rate Telegram or Cablegram unless its character is indicated by a symbol in the check or in the address.

WESTERN UNION

SYMBOLS

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NITE	Night Message
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GOVERNOR STRONG

33 LIBERTY ST NEWYORK (NY)

GOODBYE AND THANKS AND TAKE THINGS EASY

MONTAGU NORMAN

~~510P~~

25 July 1927

On Board the Cunard
R. M. S. "Berengaria."

Dear old Ben

What about it?

Where does it all lead and what can we do? I always come away with the same thoughts -- flies in a web: can lift one (but only one) foot clear: hard work to keep steady: the personal touch largely usurped by the mechanics of the web: and so on. I enjoy being with you, but I am not quite happy about you because I can't see the light at the end of the tunnel and am not sure that you are to be trusted to look after yourself. I enjoy your lectures and perhaps I look forward to a time when you will live, -- far from Washington, in a land flowing with red wine, -- near to Mother Earth.

For the present take life as easy as ever you can. It is hard to renew and can't be replaced. Drop me a line now and again and take my great thanks for all things.

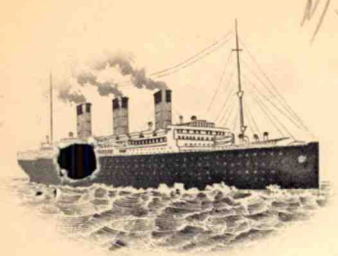
Yours affectionately,

(Signed)

M. N.
(Norman)

N/S

25 July 1927



ON BOARD THE
CUNARD
R.M.S. "BERENGARIA"

Dear old Ben.

What about it?

Where does it all lead

& what can we do? I

always come away with

the same thoughts - ^{flies} spiders

in a web: can lift one

(but only one) foot clear:

hard work to keep steady:
the personal touch largely
usurped by the mechanics
of the web: & so on

I enjoy being with you
but I am not quite happy
about you because I can't
see the light at the end

N/S 7/21/27

of the tunnel & am not sure
that you are to be trusted
to look after yourself.

I enjoy your lectures &
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a time when you will live,
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land flowing with red wine,
- near to Mother Earth.

For the present take life

as Easy as ever you can -
it is hard to renew or
be replaced - drop me a
line now & again & take
my great thanks for all
things

Yr affly
Drs.
)

133
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133
PRIVATE & CONFIDENTIAL

	OK	7/1
OK	✓	

2nd August, 1927.

Dear Mr. Governor,

I write formally to acknowledge the receipt of your letter of the 12th ultimo relative to the employment at interest of a portion of our balance.

In accordance with the discussion which took place on the 19th idem between us and Mr. Jackson E. Reynolds, I shall feel obliged if you will place the sum of \$10 million on deposit at call with the First National Bank of the City of New York. In order to obtain the necessary funds please discount or sell sufficient United States Treasury Certificates due 15th September next.

As agreed with you, I enclose, in original and duplicate, a letter addressed to the First National Bank which I trust will be satisfactory; I leave you to make all arrangements on our behalf from time to time as to the rate of interest which the money will carry, withdrawals of sums deposited, or any other matter which may arise in this connection.

Believe me,

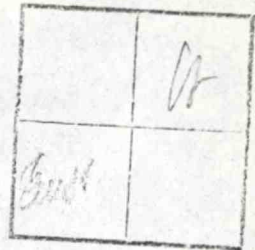
Dear Mr. Governor,

Yours most faithfully,

(Sd.) M. NORMAN.

Benjamin Strong, Esq.

0144
S.S. LEVIATHAN - 8th August, 1927.



PERSONAL.

8th August, 1927.

*

My dear Strong,

At the hand of Miss Holmes, to whom will you please convey my thanks, I have received a book of press clippings regarding our recent meeting in New York which is the gift of the Federal Reserve Bank to the Bank of England. I have previously expressed to you my admiration of the pleasing way in which clippings are presented by your Institution, and it only remains for me to say that we are grateful to you for your renewed kindness on this occasion.

Believe me,

Yours sincerely,

(SIGNED) M. NORMAN

Benjamin Strong, Esq.

MS

PERSONAL.

Bank of England,
London, E.C. 2.

11th August, 1927.

My dear Ben,

Although kindly, Lubbock is so hard a task-master that he has not yet allowed me to write to you; but at least he assures me that he himself has written to explain this and to make my excuses. So if there is any blame lay it on his shoulders.

2. Your handling of your rate reduction was masterly and for the time being has helped us more than I should have expected, especially along with the easing in your call money rate. I cannot make any useful prophesy as to conditions during later months: the position here will depend, as you know, on the inevitable trend due to crop movements as well as on Berlin and to a lesser extent on Amsterdam. Schacht's position does not yet seem to have settled down and Vissering has very little to spare on the basis of his present rate. If I can give you a useful forecast I shall of course do so, but I feel comfortable for the next six weeks and in any event grateful for your co-operation and help.

3. I gave you the best answer possible as to the proposed issue of a Greek Loan after the September meeting of the League. So far as I am able, I do not intend that any part of

the

PERSONAL.

Page 2.

Benjamin Strong, Esq.

11th August, 1927.

the Loan shall be issued here unless an issue in New York is made simultaneously; but there are many ifs. For instance, the members of the League Committee take no responsibility for the issue of a Loan but only approve its conditions apart from price, and, having done so, then wish to see it out of the way. And it is said, with what truth I know not, that there is an especial willingness in Sweden to help with this Loan in connection with the Greek match monopoly, in which case the lenders though nominally Swedish would actually be mostly international and well supplied with funds. It is also said that in addition to such usual lenders as Holland and Switzerland, the French (for some obscure reason) are also willing to be lenders to the Greeks. But you can rely on me to try and induce London only to act with New York and to get others to press the Greeks to come to a settlement in Washington. Let me hear what happens there.

4. As regards the Bank of France, Moreau is away but Siepmann has paid a very satisfactory visit to Rist in Paris. It would seem that now (as all along seemed possible) they are persuaded of the likelihood of their sterling holdings running down; they are not taking, and do not intend to take, any more gold, and apparently they do not wish to exchange sterling for dollars because the total of the former is pretty well stationary. Nevertheless I am offering, as a sign of goodwill

PERSONAL

Page 3.

Benjamin Strong, Esq.

11th August, 1927.

goodwill and in the interests of both of us, to give the Bank of France \$25,000,000 or \$30,000,000 for sterling if they wish it.

5. Salter wrote to me a few days ago that he would arrange to go to New York about the 1st October in order to discuss American membership of the Financial Committee. I daresay he has written direct to you as well as to Dwight Morrow.

6. I hope we see eye to eye about your sterling assets. The £12,000,000 more or less that you have here now were acquired at the time of Moreau's difficulties and that fact has been very useful indeed to us both. But I did not think the figure should be looked upon as rigid or permanent: if we get near to Queer Street I may ask you to increase it and therefore when the reverse takes place I should like to see you reduce it. Thus, during this perhaps spasmodic improvement in the Exchange (due of course to your rate reduction) I should like to see a reduction either by your acquiring moderate amounts of gold in the Market here or selling sterling at your rate. And this is separate from the other reason which might induce you to acquire gold in the Market, viz., that when the Exchange is distinctly in your favour, the gold is likely

otherwise

PERSONAL

Page 4.

Benjamin Strong, Esq.

11th August, 1927.

otherwise to go to New York and so into the mousetrap. } I trust both of these reasons are clear and will commend themselves to you.

Believe me,

Yours most sincerely,

Wilson

Benjamin Strong, Esq.

PERSONAL.

Bank of England,
London, E.C. 2.

13th August, 1927.

Ack 8/24/27
BS

My dear Ben,

When I was writing to you on the 11th, I forgot to mention a point arising from a conversation I had with M. Franck some days ago. You know he is sailing for New York at the end of the month, thence going to the West and coming back to see you towards the end of September.

In the banking way there is nothing particular M. Franck wishes to do but he asked me how he could best find out the prospects and methods of increasing the sales in New York of Belgian luxury goods, viz., perfumes, silks, lace, leather, and all the rest. I advised him to ask you, thinking that you could find out an answer for him through Mr. Reyburn. So I just give you this warning.

Believe me,

Yours most sincerely,

Heroman.

Benjamin Strong, Esq.

20 Aug. 1927

THORPE LODGE
Campden Hill, W. 8.

My dear Ben

I can't think how your arrangement with Jere Smith was possible now: it seemed so impossible when I came away (at least before Sept.). There is no question he will be very welcome to the Committee, but I do not know the steps towards an invitation. I am finding out.

Nothing has been done about our internal arrangements since I came back. There is some sort of a draft Report which is far from pleasing everybody and disappoints some. But no progress can be made at holiday times like these and so we must wait for a month.

I am now waiting to hear from Dr. Stewart as to whether he will be able to come to us for some weeks in the fall — as a visitor. This depends on his Mr. Case who should have been home from Europe two weeks ago.

Since the reduction in your rate, our position has been greatly improved and our control quite satisfactory. This latter is partly due to the market's uncertainties about the autumn. There is a Government maturity on Oct. 1st of some £80 million which will be difficult to deal with except through the short money market. On the other hand, one cannot measure the effects of the regular fall payments on the Exchanges. But as people seem alive to the dangers, perhaps preparations have been made in advance.

Lubbock is away for a month longer and Niemeyer does not come to us till about Sept. 15.

I have been trying to keep you regularly posted by cable and I hope you feel I have succeeded. Letters get so much out of date that I am more and more inclined to rely on cables to keep you in touch.

These shipments of gold from Cape Town to Buenos Aires may become so large as quite to affect our position. They are mostly due, of course, to large Argentine crops, largely sold to Europe. The more gold is thus drawn from Clegg the more he will lean upon us for his reserves and the less fresh gold will come to London for a period.

W? [m]
Doreau has been away all this month, and I cannot go to Paris while Lubbock is away. But, as you know, I have made the best arrangement I could with B. of France on the lines you advised. It seemed to us that when the conversion of £ into \$ was actually offered, Rist was less anxious to agree to it than earlier. But that is arranged and to the advantage of both.

Please tell me how you are and where you are living and whether Phill is with you. The last letter from you said nothing about all this. Its questions have all been answered in one way or another.

Amy is back at Plodge but not yet fit for doing all she used to do: Still she is improving.

My love to you,

(Signed)

M. N.
(Norman)

20 Aug 1927

THORPE LODGE

AMPDEN HILL. W. 8.

My dear Ben

I cant think how your arrang^t with Jere. Smith was possible now; it seemed so impossible when I came away (at least before Sept) There is no question he will be very welcome to the Com^{tee} but I do not know the steps towards an invitation. I am finding out

Nothing has been done about our internal arrang^ts since I came back; there is some sort of a draft Report which is far from pleasing everybody & disappoints some. But no progress can be made at holiday times like this & so we must wait for a month.

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THORPE LODGE

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letter from you said nothing about all this:
its questions have all been answered in one
way or another.

Amy is back at Plodge but not yet fit
for doing all she used to do: still she is
improving.

My love to you
Miri.

PERSONAL.

ack of 31/27 B.S.
Bank of England,
London, E.C. 2.

22nd August, 1927.

My dear Strong,

I cannot understand, nor even guess, how you induced Jeremiah Smith to agree now to membership of the Finance Committee. I thought when I left you last month that this must await Mr. Mellon's return to Washington in September. But no matter how you brought it about, the result is fine. Personally, I have no doubt that the whole Finance Committee will at their September meeting wish to invite or nominate J.S. not only unanimously but whole-heartedly. Further, I doubt if any formal notification is needed before the September meeting: rather I think it is for the Committee then to make the appointment or send the invitation with the (privately acquired) knowledge that J.S. would be willing. But as you know from my cable, I have applied to Niemeyer (who is on a holiday) for his advice as to the modus operandi.

I presume that in view of your understanding with Jeremiah Smith it is no longer necessary for Salter to go to New York in October?

2. I have no more to say about gold purchases here for your account, I mean other than those to prevent shipments to New York, partly because the question depends upon your willingness to purchase (of which you can judge and I cannot) and partly because the direct shipments from Capetown to Buenos Aires are

likely

data &
Copy

PERSONAL.

Page 2.

Benjamin Strong, Esq.

22nd August, 1927.

likely to be so heavy that I doubt whether for some weeks to come there will be any gold in the London Market worth counting. I wrote you the other day how this question struck me and since then you have sold more sterling than I expected.

3. In continuation of what I wrote to you on the 11th about the sterling held by the Bank of France, I can most completely bring you up to date by enclosing a copy of my letter to Rist (to which they entirely agree).

In so far as I was a party to any understanding, I felt that this position should now be cleared up one way or another. I was committed to Rist as well as to you to do my best and, if it had not been for Moreau's absence, it would have been arranged a couple of weeks ago.

4. I know no more about the Currency Note prospects than when I was last talking to you. Both the when and the how of amalgamation are unsettled, so also I think is the official method of approach to a decision.

5. I will book a date towards the end of the year for Algeciras. I assume you will drop a line to the others and would not expect me to do so? Of course I should like nothing better than to write to them and arrange this, but probably you would sooner do it yourself?

Yours most sincerely,

Livingston

Benjamin Strong, Esq.

COPY.

CONFIDENTIAL.

BANK OF ENGLAND, LONDON, E.C.

18th August, 1927.

Dear Professor Rist,

Forgive me if I have delayed a day in answering your letter of the 16th August, in which you ask for an early decision regarding the proposed conversion into dollars of a part of the sterling balances held by the Banque de France. As you imply in your letter, the question must be decided in the light of the conversations in America between ourselves and with Strong, by which I was committed to considering on my return to London how best the Bank of England could facilitate this conversion. I was happy to be able, by my letter of the 10th August, to meet your wishes to the extent of \$25 millions, without making any stipulations about the rate of exchange at which the conversion should take place: and although, as you say, the circumstances have in the meantime changed in some respects, I still believe it is to our mutual advantage that we should proceed. The rate of exchange which you now propose will be entirely acceptable to the Bank of England, in view of the very special nature of this transaction.

It therefore only remains to fix the date at which the transfer could most conveniently be made and I would suggest that the whole amount be paid in London and in New York in a week's time, say on Thursday the 25th August.

CONFIDENTIAL.

Page 2.

Professor C.Rist.

18th August, 1927.

I take it that your convenience will be met if dollars are placed at the disposal of the Banque de France with the Federal Reserve Bank, and I shall ask the Chief Cashier to arrange accordingly.

I hope that you are well and that you will enjoy the short holiday which I hear you are about to take. When you return, I shall look forward to seeing you again before long.

Believe me, dear Professor Rist,

Yours most faithfully,

(Sd.) M.NORMAN.

Professor C.Rist.

0192

83

PERSONAL

s. s. MAJESTIC
23/8/27

22nd August, 1927.

*

My dear Strong,

Your letter of the 4th August and the photos mentioned therein have now arrived and I send my best thanks to you for both. The case containing the photos was considerably damaged by water which had unfortunately reached the edge of the prints. An endeavour is being made to repair the mischief (which is probably not serious) and I hope to be able to pass on the photos in accordance with your wishes.

Believe me,

Yours sincerely,

(SIGNED) M. NORMAN.

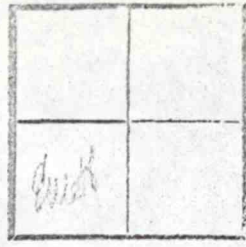
Benjamin Strong, Esq.

W.H.H.

0194

82

PERSONAL



22nd August, 1927.



My dear Strong,

In spite of much thought during the last few years upon the subject of 'Stabilisation' and not a little action jointly with yourself and others in its name, our interest in the subject persists. Therefore the volume of evidence on 'H.R. 7895' which I have received this morning is welcome and will have many keen readers here.

In the absence of Lubbock, who is on leave, I add on his behalf thanks for the copy which you have addressed to him.

Believe me,

Yours sincerely,

(SIGNED) M. NORMAN.

Benjamin Strong, Esq.
ESM

PERSONAL.

23rd August, 1927.

My dear Strong,

The copies of 'Stabilization' which you have sent Lubbock and myself according to your promise, and for which we had been watching, arrived to-day.

On behalf of us both I send best thanks.

Believe me,

Yours sincerely,

(SIGNED) M. NORMAN.

Benjamin Strong, Esq.

MS

0197

CONFIDENTIAL.

11

24th August, 1927.

*

Dear Mr. Governor,

I have received your letter of the 15th August with enclosures as stated.

Everything connected with the transfer of our funds to the First National Bank has been conducted as we could wish and I am greatly indebted to you for the efforts you have made on our behalf.

Believe me, dear Mr. Governor,

Yours most faithfully,

HYWELON 11 (GENSIC)

Benjamin Strong, Esq.

BS

PERSONAL.

ack 9/13/27

Bank of England,
London, E.C. 2.

27th August, 1927.

My dear Ben,

I am glad to be warned that Winston is likely to pay me a call: I like him and shall be pleased to see him, the more so if he has been improving the attitude of the City Bank and Charley Mitchell towards you.

This raises a question about which I am enquiring by cable to-day. If it is true that Speyers and the National City Bank have arranged to handle Greek business jointly, what is to be their attitude towards the League Loan which it is proposed to issue in the Autumn? It must have been Winston who advised Washington to prevent the issue of Loans to countries who had not settled their debts with the U.S. and presumably he advised the Bankers to listen to Washington. Is he now advising Charley Mitchell to hold off from this Greek issue and making Jimmy Speyer do the same?

Rather a queer predicament; therefore your personal note of the 16th August is the more helpful.

Yours most sincerely,

W. Roman.

Benjamin Strong, Esq.

Mr. Morrison
(Please return for reply)

PERSONAL.

Bank of England,
London, E.C. 2.

29th August, 1927.

My dear Strong,

Cis Lubbock from his holiday retreat has sent me your letter of the 16th August to deal with. He had evidently written to you to explain the burdens he insisted on laying upon me so that he himself could go unburdened for a vacation!

2. I have been cabling so fully as to the Exchange position that I can say no more about it except that the news of the opening of the Conversion Office (i.e., free gold export) leaves me uncertain as to its probable effect on the Argentine Exchange and on the Argentine demand for gold. It is true that our position may be tender, chiefly because the French skimmed everything off the Market some three months ago: otherwise we should now have been in a strong position. As it is, things are a deal better than a few weeks ago they seemed likely to be.

3. I am glad you are in touch with the Commonwealth Bank people, and of course a fundamental reason for my cabling to you on the 5th instant was that you should link up with them before they linked up with anyone else. I did not at that time know that Mr. Collins was to join the other two in New York: I know Collins and think he can be relied on to be helpful - the other two I don't know.

*Cable
with data*

PERSONAL.

Page 2.

Benjamin Strong, Esq.

29th August, 1927.

4. Of course I am very anxious that, as we agreed, gold from Australia should be sent to London rather than to New York: I will have the question of freight charges, &c., gone into carefully. But you will remember the answer of the Bank of England to this question while I was in New York: I see it set out in Lubbock's cable of the 18th of last month.

5. As to gold purchases and prices in general, I now have some hope that the Bank of England will be allowed to pay more than ^{s d} 77/9 for gold on this Market in case of undesirable competition: that would be a great help to us. There has of course always been a legal requirement that we should pay that price and ^{legally we are} ~~we may be~~ free to pay more. But I have only ascertained within the last few days that 20 or 30 years ago, when there were heavy demands upon this Bank for sovereigns, it was the custom occasionally to pay above ^{s d} 77/9 for bars. Of late, on the other hand (with no such demand for sovereigns as formerly) it has not been thought we would be wise to pay over the statutory price and the result of not having done so has doubtless tended to supply gold for the Central Banks of Europe. Before, however, I can speak definitely, I must wait to get the blessing of Addis and several others, who have strong views on gold purchases and prices.

Yours most sincerely,

Benjamin Strong

Benjamin Strong, Esq.

Copy with data

Copy with data

PERSONAL.

Bank of England,
London, E.C. 2.

2nd September, 1927.

My dear Strong,

Referring to my letter of the 29th of last month, I enclose a pro forma statement as to freight charges, &c., from Australia to San Francisco and to London, in order that you may have the figures before you and possibly check them with Mr. Harrison.

At the same time I may as well enclose a note as to the dollar-sterling gold points. I shall be much obliged if Mr. Harrison will kindly check these particulars and inform me if he is in agreement. I know he has all the figures in his file.

2. Mr. Winston called here on the 29th August but as he was following Charley Mitchell to Scotland that day we did not have much time together. I expect to see him again towards the end of the month. Meanwhile he confirms what I told you - that the City Bank have agreed in principle to join Speyers in handling any Greek Loan that may be authorised by the League, but that neither of them would move until the Greeks had reached a settlement at Washington.

Yours most sincerely,

W. H. Dawson

Benjamin Strong, Esq.

*Enclosures sent
to Foreign Dept.*

*Asked
9/14/27
J*

025
"S.S. Olympic". 7.9.27

PERSONAL.

62

5th September, 1927.

*

My dear Ben,

Among the various European questions which we have discussed from time to time, I may have mentioned to you the case of Norway: or again I may not, I cannot remember.

But as this question (after simmering off and on for years) seems within the last week or two to be boiling up, I am sending you a Memorandum on the subject which Siepmann has written for your particular use.

Yours most sincerely,

(SIGNED) M. NORMAN.

Benjamin Strong, Esq.

PRIVATENORWAY

For some years past we have been in touch with the Norges Bank, and in June 1927 the President wrote that he did not look for any immediate return to gold parity, but that the moment was approaching when preparations must be considered. "One of the first steps in this direction will be to secure a credit abroad During the last year or two we have had numerous offers of stabilisation credits from foreign private banks and on quite acceptable terms, but, so far, we have declined to discuss the matter In the course of our preliminary discussions within the Bank, we have fixed upon an amount of some £6 millions".

Last month Mr. Siepmann went to Oslo by arrangement to visit the Norges Bank. He ascertained that:-

- (1) Although exchange is now within 2 or 3 per cent. of prewar parity, the policy of the Norges Bank is still to go slow.
- (2) The President would prefer to stabilise de facto in the course of the next year or so, but to postpone de jure stabilisation until experience has shown that prewar parity can be successfully held.
- (3) Though general elections are pending, and the Norges Bank is a parliamentary bank, no change need be feared in the policy or Directorate.
- (4) No legislation is required in order to reestablish convertibility of notes for gold. All that need be done is to repeal a Royal Decree.

PRIVATE

(5) The question of a coin or bullion standard has not yet been considered: but the circulation of gold coin was very small even before the war and the Norges Bank is more likely to diminish than to increase its gold reserves in course of time.

Economic adjustments to the improved exchange appear to be proceeding normally, though prices are still very high and wage reductions have been delayed. The Norges Bank seem to have the monetary situation well in hand. Foreign balances with private banks in Norway have been large but are now probably not dangerously high. Public finance is in fairly good order: the weak spot seems to be local finance, especially as it affects the district banks.

My general advice, for which I was asked, has been:

- (a) not to delay over long,
- (b) not to wait at de facto but pass straight to de jure stabilisation,
- (c) to avoid the expense of needless credits.

This advice, especially on the last point, will not be very palatable to the President. He is being offered overdrafts by private foreign banks but would prefer to deal with Central Bankers, if he could do so on the same terms. He admits that the suggested £6 millions are for ornament rather than for use and I hope he will reduce his requirements to a manageable figure.

5th September, 1927.

no was real me
PERSONAL.

Bank of England,
London, E.C. 2.

6th September, 1927.

My dear Ben,

✓ I note from the last lines of your letter of the 25th August that you now propose the middle or end of January for a visit to Algeciras. That will suit me as well as any other time; and you will be letting me know about the other visitors on the lines of my letter of the 22nd August, paragraph 5.

2. There are only a few points in this letter of yours to which I need refer, for it is mainly an epitome of what has been going on.

Or 261
As to the Commonwealth Bank of Australia, mentioned in paragraph 12, I most certainly hope that they will open an account with you and I think you should entice them to do so. Indeed, I asked you originally to get in touch with Armitage and Mason in order that their banking business should find its way to Liberty Street.

** Or 261
Bk of England*
3. Paragraph 11 just states my view in regard to your sterling assets. As you say elsewhere, the recent transfer of these assets from sterling to dollars has proceeded much more rapidly than one could have anticipated and the amount thus transferred is owing by our Bankers generally to your Bankers. But the object of the transfer, from your and my standpoint, was thus to have a reserve purchasing power for sterling Bills in case

later

PERSONAL.

Page 2.

Benjamin Strong, Esq.

6th September, 1927.

later in the year such purchases become desirable. You hold now fewer pounds and more dollars than you held a month ago, but a month or two hence an occasion may arise for you to reverse that position. I like to hope that you would then be willing to do so.

4. This leads me to the question of our dollar assets. First, you will agree that in principle we ought not to hold investments running more than a couple of years, whether the $3\frac{1}{2}\%$ 3-5 year Notes or the Fourth $4\frac{1}{4}\%$ Bonds. But the difficulty is to find investments. We are already pretty well supplied with December 1927^s and with March and September 1928^s. Then comes a gap in dates of maturity. What else is there?

Second, the occasion to transfer dollars into pounds may arise for us too during the next 60 or 90 days. It is for this reason that we have suggested to Case not only an increase in our 15th December maturities but a considerable increase in our deposit with the First National Bank. We can make use of such funds as these at any time without unwarranted risk in discounting and I know of no other use for our short assets.

If you do not think this is a wise arrangement, I count upon you to tell me so. It is especially designed so that a rate advance can be avoided here over the Fall period, to quote from your paragraph 7.

PERSONAL.

Page 3.

Benjamin Strong, Esq.

6th September, 1927.

I have been giving you all the news I can think of so this is the end for to-day, and

I am,

Yours most sincerely,

W. H. C. Brown.

Benjamin Strong, Esq.

PERSONAL.

Bank of England,
London, E.C. 2.

10th September, 1927.

My dear Ben,

As soon as your letter of the 31st August arrived, I telegraphed to Salter that you wished him to be careful as to the character of the publicity about Jeremiah Smith's appointment: I also wrote to him the same day about your other suggestions and hopes in this connection. As yet there is no answer from Salter but it is more likely he will communicate direct with you than through me.

2. There is just one point we must not forget about Algeciras. I gather you have written to Moreau, Schacht, Vissering and Bachmann: that makes four or with us two six. Some of them don't speak our lingo - that needs an adequate companion. I, for instance, would propose to bring Siepman. But you cannot hope to collect six or eight fellows at Algeciras from all parts of Europe and from America without limelight and publicity. The reporters are certain to find out and will be stopping in the same hotel, and there will be no sort of means of escape in a public place of that kind as there would be in New York or elsewhere.

Now I am all for meeting at Algeciras, but don't forget the danger and trouble of publicity especially if the numbers are increased.

Yours most sincerely,

W. Roman

Benjamin Strong, Esq.

FEDERAL RESERVE BANK
OF NEW YORKINTEROFFICE
ROUTE SLIP

TIME _____

A. M.
P. M.

DATE _____

TO

*Gov Strong -**Waterbury MS*DEPARTMENT
DIVISION
SECTION

REMARKS

*This letter is a wonder -
he must read himself & sleep
with da. Milne*

FROM

*WRB*DEPARTMENT
DIVISION
SECTION

N. B. USE THIS FORM INSTEAD OF OFFICE ENVELOPE WHEN POSSIBLE.

TO INSURE PROMPT AND ACCURATE DELIVERY ALL COMMUNICATIONS SHOULD BE DISTINCTLY LABELED

*Noted
by C.H. 9/30/27
Mc*

PERSONAL.

Bank of England,
London, E.C. 2.

13th September, 1927.

ack 9/21/27

My dear Strong,

A few days ago I received your personal letter of the 30th August covering another and longer personal letter about the article by Mr. Snowden which had appeared in the 'Financial Times' of the 23rd August. Mr. Snowden is now living in the country and from what I know of his movements is not likely to be in London yet awhile. And so after cogitating over your letters I decided that the best thing to do was to send your longer letter straight to him in the country along with the Press clipping to which your letter referred. I wrote too, saying what sort of a fellow you are; that you wanted to put him right as to the policy of the Reserve Banks; and asking him to read your letter at his leisure and for his own information. I hope this will produce the result you desire, and anyway I think it was almost the only way now to deal with the matter.

All the same I am not sure that you have judged Snowden's real attitude quite rightly: you may be making a mountain out of a molehill; for when I read the article in the 'Financial Times' I did not judge its intention or effect to be serious. It has raised no comment or discussion here. You must remember the position of the 'Financial Times' and of
Snowden.

PERSONAL

Page 2.

Benjamin Strong, Esq.

13th September, 1927.

Snowden. He, I should guess, was commissioned to write an article on a chosen subject suitable for that particular newspaper. Now Snowden, though he is a serious man and an ex-Chancellor, is no banking expert: he is a poor man and finds the butter for his bread by writing articles here and there. When offered a good fee for a newspaper article, he has to make that article sufficiently irritating or intriguing for the particular paper and the 'Financial Times' (a second class sheet which prides itself on irritation and sore spots and tail twisting) would not have been content with obvious milk and water.

In other words, the newspaper paid the piper and called the tune: the piper played the required tune, within limits, but in such a way I think that he could maintain vis-a-vis a critic or his conscience that he was raising questions rather than making complaints and that for remedy he relied on co-operation. Of course, it goes to show that politicians should not also be journalists. But taking things as they are, a politician such as Snowden need not be a bad or unintelligent man because being a journalist he wants some butter on his bread.

So I hope very much to set your mind at rest sooner or later, and meanwhile

Believe me,

Yours very sincerely,

di Norman.

Benjamin Strong, Esq.

0257

PERSONAL.



Original later located
in C261 B of E.

92

13th September, 1927.

*

My dear Strong,

We have long been on the lookout for an opportunity to return your kindness in sending us from time to time newspaper clippings on subjects of interest. An opportunity has now occurred in connection with the Chicago Bank Rate controversy and, much though I regret the cause, I am none the less glad to be able to be of service to you by sending a number of clippings concerning the affair. As a counter irritant I send also a clipping headed 'Blair v Morgan', which might amuse you.

Believe me,

Yours sincerely,

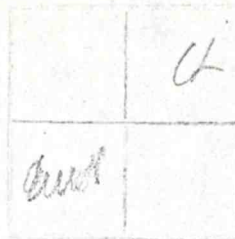
(SIGNED) M. NORMAN.

Benjamin Strong, Esq.

B. Strong

026 x Per S.S. Mauretania - 17.9.27.

PERSONAL.



93

14th September, 1927.

*

My dear Ben,

In continuation of the first paragraph of my letter of the 10th instant, I give you the following extract about Jeremiah Smith's appointment and about Salter's plans from a letter relating to all sorts of things just received from the latter:

"The announcement of Jeremiah Smith's appointment was perfectly discreet and nothing that we have issued could tend in any way to provoke an unfavourable or other reaction in America. The announcement had of course been made before I heard either from Morrow or from you. There is obviously nothing more that we can do, except to continue to be as discreet as before.

I fully understand the position as to the character of Smith's appointment, and, I think, the attitude which has found expression in Strong's letter. Smith's influence will of course be just what in practice he is able to make it, and we are certainly not playing with any notion of a "control" over the placing of foreign loans on the American market.

As to my going to America, Morrow has again written pressing me. I find it a little difficult to see why it is necessary at this moment, when Smith has been appointed, and before he has arrived. In any case, if I were to go before

he

PERSONAL.

Page 2.

Benjamin Strong, Esq.

14th September, 1927.

he arrives, I think I could only start the third week in October. Not only must I stay here for the Assembly and have a series of appointments in England the first part of October, but it seems to me it would be very unfortunate to go at a time when both Jeremiah Smith, Lamont, and also Morrow himself, whose absence you don't mention, will be away. In these circumstances, perhaps the best thing to do would be to discuss the matter with you when I am in London early in October, and not decide before we have had that conversation.

I have just had a cable from Jeremiah Smith indicating that he expects to be at the next meeting of the Financial Committee. Whatever cautions may attend his appointment I feel sure that your successful negotiations to get him will mark a very important stage in the development of the Financial Committee and its work."

Yours most sincerely,

(SIGNED) M. NORMAN

Benjamin Strong, Esq.

Per s.s.Mauretania. 17th September, 1927.

PERSONAL.

16th September, 1927.

My dear Ben,

Apparently the interest which our Press took in the Chicago controversy had not exhausted itself when I wrote to you on the 13th September, and the announcement made this morning of the resignation of Mr.Criessenger is calculated to revive it. It is well therefore that I should send you herewith the latest clippings.

Further in case you have not seen it I am sending you the latest monthly review of the Midland Bank in which they prescribe a cure for the instability of the value of gold. This cure has been foreshadowed in a number of previous articles which, as you may not have seen them, I also enclose.

Yours very sincerely,

(SIGNED) M. NORMAN.

Benjamin Strong, Esq.

(Copy of a handwritten letter)

Sept. 18, 1927

Thorpe Lodge, Campden Hill, W. 8.

My dear Ben.

Niemeyer has been with us for a couple of days (which you know marks a real change) & says everything went fine about Jere Smith. You will not find any bad reaction from Geneva. Salter is tied up there for 2 or 3 weeks + then comes to London for a couple of days: I will try + fix his coming later to N.Y.-but it depends on his free time.

I am still wondering what Dr. Stewart will be able to do about this fall: you sent me a message from him + I have since written him, but it looks now as if we would not see him here till Jan.1st That of course is when he will really be free.

Kindersley is in Brazil + making a deal of trouble by promising Credits + discussing Schemes for valorising coffee- Certainly more than we want to carry + probably poor policy. But his is a difficult firm to deal with + only seem to look on business from just one angle.

Partly because of his absence (for another month) our internal plans are going slow. But it is certain that in a few weeks there will be a Report signed with several recommendations to which most of 'us' (your pals) will be wholly opposed. I don't know what will happen then. Its not a question that turns round my position for all seem to want me to continue for a year or 2 years. Its a question of later administration rotation + all the points you have heard discussed.

Peacock is going to Canada early in Oct. + will likely pass through N.Y. later: you shd. make a point of seeing him. McKenna is going at the same time as they are both Directors of the Can.Pac.- a nice pair! heaven arm in arm with hell? McKenna is always chasing the lime-light + always making things difficult for me. he's a bad man.

I had an idea that Cupid was shooting arrows at Phil + am glad this usual + welcome complaint is developing! Glad for him + her: ; but it will leave you fa- more alone than ever when he comes to marry. We (not you alone) must consider carefully what line of life you are going to choose.

A squabble seems to have sprung up between the Board + the Chicago R.Bank about their rate reduction. there are frequent allusions to it in our papers; but I do not understand just what has happened. The fact is unfortunate because it has rather disturbed your rate plans which had been working out so very well + because it looks as if Crissinger had resigned in consequence.

Lubbock is now coming back after his vacation + the rest of our party will follow him soon. Siepmann is in Paris ; just to keep tough. Our refunding is not easy but ; is making progress: of ; course Churchill (being himself) cannot ever make such operations easy!

With many thoughts + much affection

I am MN

Perhaps I have been sending you too many press cuttings + articles from the Bank?? Blame a renewed machine - not me!

Sept. 18. 1927.

THORPE LODGE,
AMPDEN HILL. W. 8.

My dear Ben. Nemeyer has been with us for a couple of days (which you know marks a real change) & says everything went fine about Jere Smith. You will not find any bad reaction from Geneva. - Salter is tied up there for 2 or 3 weeks & then comes to London for a couple of days: I will try to fix his going later to N. Y. - but it depends on his free time.

I am still wondering what Dr. Stewart will be able to do about this fall: you sent me a message from him & I have since written him, but it looks now as if we would not see him here till Jan. 1st. That of course is when he will really be free. Kinderley is in Brazil & making

a deal of trouble by promising credits & discussing
Schemes for valorising coffee -

Certainly more than we want to carry & probably
poor policy. But his is a difficult firm to deal
with & only seem to look on business from just
one angle.

Partly because of his absence (for
another month) our internal plans are going
slow. But it is certain that in a few weeks
there will be a ^{signed} Report with several recommendations
to which most of "us" (your pals) will be wholly
opposed. I don't know what will happen then.
It's not a question that turns round my position
for all seem to want me to continue for a year
or 2 years. It's a question of later administration
rotation & all the points you have heard discussed

Peacock is going to Canada early in Oct^r &
with likely pass through N.Y. Later: you sh^d?
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THORPE LODGE,
MADAMPDEN HILL. W.8.

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both Directors of the Can. Pac. - a nice pair!
Heaven arm in arm with hell? McKenna is
always chasing the lime-light & always making
things difficult for me: he's a bad man.

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Phil & am glad this usual & welcome complaint is
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 The fact is unfortunate because it has ~~been~~
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 Our refunding is not easy but is making progress:
 of course Churchill (being himself) cannot ever
 make such operations easy!

With many thoughts
 & much affection
 I am dear.

Perhaps I have been sending
 you too many press-cuttings
 & articles from the Bank??
 Blame a renewed machine - not me!

0280
Per S.S. "Leviathan" - 19.9.27.

PERSONAL.

95
19th September, 1927.

My dear Strong,

I am sending you a copy of the Protocol just issued by the League which covers inter alia the Greek Agreements. These you will see are somewhat complicated and, as legislation in Athens will be necessary, it is quite clear that the proposed Loan cannot be ready for issue until perhaps December or even January.

The interval gives time - and I hope ample time - for a settlement to be reached between the Treasury in Washington and the Greek Government, and the cable you sent me on the 29th of last month (No.66/27) was at any rate "slightly encouraging." Niemeyer tells me, as the result of his talk with the Greeks in Geneva, that he thinks they intend to settle right away but they hope for certain consideration in the terms.

Yours very sincerely,

(SIGNED) M. NORMAN.

Benjamin Strong, Esq.

PERSONAL

Bank of England

London, E.C. 2

22nd September, 1927.

My dear Strong,

You may perhaps wonder what has happened to the photographs which you sent to me for signature at the beginning of August. A number of things have delayed their return. They had to be dried on their arrival here; then Schacht was ill and unable to sign; and now Rist is in Switzerland. But the photographs have come to no harm and your copies should be on their way back to you in about a week's time.

Yours very sincerely,

Livingston

Benjamin Strong, Esq.

PERSONAL.

Bank of England,
London, E.C. 2.

23rd September, 1927

ack 10/3/27 BS
Smith

My dear Strong,

I have been much interested in reading your letter of the 12th instant (Personal and Confidential) which gives a good account of the differences which have arisen between the Board and the Reserve Bank of Chicago, and which also explains your loss of gold and your discounts. Thank you also for sending the Whaley-Eaton Letter, No.471. I hope to goodness your money market will straighten itself out and certainly money rates have been satisfactory during the last ten days.

Since your letter was received, the appointment of Mr. Roy A. Young to succeed Crissinger is announced, and this I hope will help to smooth out your difficulties. His name is new to me.

So far as our position is concerned, I cannot add much to my cables of the 13th and 15th, especially the latter (No.169/27). Owing to repayments and conversions our market will be upset until the second week in October and you need not pay too much attention to the rates which may happen to be quoted between now and then. Generally speaking, our short money rate should run along at $3\frac{1}{2}\%$ with three months' Bills about $4\frac{1}{4}\%$, but there is so great a demand for the latter that

PERSONAL.

Page 2.

Benjamin Strong, Esq.

23rd September, 1927.

that the rate always tends to weaken if short or call money becomes abundant even for a couple of days. You already know our dollar position, which shows good balances in hand with the First National Bank and December maturities. I hope our and European importers have largely covered their known dollar requirements for the Fall: but this cannot be ascertained. Our Reserve position is satisfactory but our gold holdings are meagre as they continue to suffer, directly or indirectly, from the strong Argentine demand as well as by the normal dribble to many countries which occur almost every day.

As regards conversions: the maturities of the 1st October have recently been satisfactorily dealt with, but a current attempt to deal in advance with next Spring's maturities - a total of some £200 millions - has met with a poor response. The fact seems to be that as all these Bonds (which were issued during the War) come to their maturity, more and more of the holders wish for short Bonds or Bills and fewer are willing to refund for 20 or 30 years: of course the Treasury's object all the time is to bring about the latter.

Yours most sincerely,

W. Roman.

Benjamin Strong, Esq.

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	OK

92

PERSONAL

s.s. "BERENGARIA" 1.10.27.

29th September, 1927.

*

My dear Strong,

For months past the Portuguese have been trying to raise a loan. There was first talk of using the Tobacco Monopoly as a basis, but for one reason or another this idea fell through. In the early part of this year the Portuguese Finance Minister came to see me about his pressing needs and at that time he probably obtained a small amount of money in London for 3 or 6 months. But I told him that he should go to his old friends and put the whole position before them. He went to them, namely Barings, who looked into the position and would, I think, have been willing to help if not only the basis of a loan but also the condition of the Portuguese Government had been reasonable: apparently it was not reasonable and nothing happened.

After trying in various other quarters, probably in your country as well as in Europe, the Portuguese in the summer went to Lazard's who were granted six clear weeks without interference and without other negotiations to look into the position on the spot and, in consequence of an arrangement on these lines, Lazard's are expecting to receive a report on the whole situation in the course of a few days. I guess, but I do not know, that

the

PERSONAL

Page 2.

Benjamin Strong, Esq.

29th September, 1927.

the first indications are not hopeful.

The idea of working through the League therefore cropped up, very naturally and very properly from our standpoint, and Lazards have been discussing the possibilities with Niemeyer without either of them knowing in the least what the real state of affairs is in Portugal, politically or financially, and without knowing the attitude of the Portuguese Government. Politically the position is certainly precarious and more or less unconstitutional: financially, I think it must be worse than had been expected.

At their request Niemeyer has given Lazards a Memorandum (under to-morrow's date) mainly on the possibilities of help from the League and I am sending you a copy, herewith, in case the question should come before you. You will treat it please as confidential; but I may add that the people in America with whom Lazards have broached the subject are the Guaranty Trust - probably Swan. Doubtless if Jeremiah Smith were in New York, Niemeyer would also communicate with him direct.

Believe me,

Yours sincerely,

(SIGNED) M. NORMAN.

MEMORANDUM

1. The Bank of England would certainly be willing to give its full moral support and assistance to any plan of financial reconstruction for Portugal recommended by the Financial Committee of the League of Nations. An essential part of such a scheme would be Currency reform, including the legal stabilisation of the Currency unit.

2. The Bank cannot undertake to support a scheme other than a League of Nations scheme, particularly in view of the political uncertainty in Portugal.

As London is a free market Lazard Bros. & Co. are of course at liberty, so far as the Bank of England is concerned, to provide here some portion of an international Loan under another scheme.

3. As regards the modalities of the League scheme for Portugal, it is impossible to say in advance of investigation what might be needed. The League has no cut and dried formula: and, as the many variations in the details of past League schemes show, each case not only needs to be but, in fact, is considered on its merits.

4. On the hypothesis that the real position is neither better nor worse than it is believed to be, it may be conjectured as follows:-

It would be necessary for the Portuguese Government to obtain the approval of the Financial Committee for a programme designed to secure permanent Budget equilibrium, whether by

increased revenue or decreased expenditure or both, which they would undertake to carry out within a period of, say, two years. There would have to be adequate provision for seeing that any Loan money destined to fill a temporary deficit was used for that purpose and no other. So long as the agreed programme was being duly carried out a general Budget control might not be necessary.

It would be necessary to examine the position of the Bank of Portugal and to consider whether it possessed the necessary independence from political pressure and the necessary power, legally and materially, to carry out whatever was the agreed stabilisation programme: and, if not, how it was to get such power.

Probably lenders would demand a guarantee of some specific revenue and, in that case, the Assigned Revenue would have to pass through an account in the name of the Trustees of the Loan.

It seems hardly conceivable that any serious person would consider a Loan to Portugal without some such requirements. It is certainly obvious that they are entirely in the interests of Portugal and of the Portuguese Government.

5. The Portuguese Government would certainly be expected to furnish information to the Financial Committee of the League periodically on the progress of the agreed reconstruction scheme and to publish full financial statements.

It will probably be necessary for the Financial Committee to have, for some time, a representative in Portugal to act as a liaison between them and the Portuguese Government. The

extent of his functions would depend entirely on the facts of the financial position and might, or might not, involve more than the mere right to require information.

It would probably be necessary for the Bank of Portugal while carrying out the delicate operations of stabilisation, and, therefore, much in need of foreign confidence (at present wholly lacking), to secure the services of a foreign expert approved by the League, say, for two or three years, with a consultative or advisory voice at the Bank.

The terms of any League Loan would have to be approved by the Financial Committee.

6. The advantages to Portugal of going to the League may be summarised as follows:-

- (a) Better terms for any issue, for she adds the cachet of the League to her own unaided credit.
- (b) Far greater publicity; more general interest in her financial reform; and greater confidence in its success.
- (c) The expert advice of the League Financial Committee, who have special experience of all aspects of financial reconstruction and who are a non-political body with no object or interest whatever but to give impartial financial advice and assistance on technical questions.
- (d) In so far as and if there were a measure of control, it is control not by a foreign financial interest but on the advice of the Financial Committee by the League Council of which Portugal would herself be a Member for this purpose.

7. If Portugal wished for a League investigation with a view to Budget and Currency reconstruction, she would have to apply accordingly to the Council of the League which meets early in December next. Such an application would be referred by the Council to the Financial Committee who would, between then and their March Meeting, collaborate with the Portuguese Government in working out a scheme of reconstruction.

30th September, 1927.

PERSONAL.

Ans
Mrs.
10/14/27

Bank of England,
London, E.C. 2.

30th September, 1927.

My dear Strong,

I think that your letter of the 19th instant about Philip Snowden's article in the "Financial Times" only needs a brief acknowledgment. I dealt with it as it were in advance on the 13th September, and though I have since had no word from Snowden himself I believe his article should not be taken too seriously. We here certainly take the view that it is better, as you say, to "let the Heathen rage".

2. The exchange position continues to be quite satisfactory with the help of your easy money rates. Thus I am glad you are able to carry out your wish to liquidate still further your sterling holdings on the lines of the cables which have passed since the 26th instant.

3. You will have gathered from my cable (No. 178/27), even if you have not heard from Dr. Stewart himself, that to our great regret he is not able to pay us a visit this Fall, and we therefore await his coming about the New Year with patience and great pleasure.

4. In five or six weeks' time you are likely to have a visit from E.R. Peacock. You know him so well that I need not ask you to open your arms wide. He sails for Canada within

a couple of days, along with McKenna, to attend a meeting of the C.P.R., but afterwards he will spend a few weeks in Canada and then go down to New York; while McKenna with his love for lime-light and propaganda will be giving addresses and generally stirring the pot in several of your cities!

5. The weekly cable as to your conditions, which reached us yesterday, contained a piece of information with which I am unfamiliar. It reads as follows:-

" . . . Labour demands smaller than last year and
"labour turnover small."

Does this mean that the shifting of working men from one place to another and from one industry to another is smaller than usual and what economic or financial deduction should be drawn? I assume it does not imply unemployment but perhaps more settled conditions?

You need not trouble about this yourself but ask Dr. Burgess to send a couple of lines on the subject.

Yours most sincerely,

W. Brown.

Benjamin Strong, Esq.

Per S.S. "Majestic" - 4.10.27.

101

PERSONAL.



3rd October, 1927.

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My dear Strong,

Look back at the cable I sent you on the 27th September, No.182/27.

You want to bring about a settlement of the Greek Debt to Washington and an embargo is to be placed upon the issue of any further Greek Loan in New York; and this embargo would be effective because the Greeks will soon be wanting the Loan authorised last month at Geneva, as to which I sent you a copy of the Protocol on the 19th September.

This imaginary argument is quite right so far as it goes. We here, I think, could not provide all the money required by the Greeks and therefore would issue no Loan unless arranged jointly with New York.

But now come along the Swedish match people who have already had dealings with the Greeks - an international group with ample funds seeking employment. As far as I can learn they are almost certain to offer such terms as will be accepted for part of the League Loan and they could even provide the Greeks with the whole £9 millions. So please will you keep this in mind, and

Believe me,
Yours most sincerely,

(SIGNED) M. NORMAN.

Benjamin Strong, Esq.

PERSONAL

Ans. 10/10/27
Bank of England,
London, E.C. 2.

5th October, 1927.

My dear Ben,

I just write to say that your three letters of September 21st have been received: the two about Blair v. Morgan and about Mr. Snowden's article require no comment.

I shall be sorry if your plans about Algeciras have to be changed owing to the disturbance which may arise from the rate dispute between the Board and the Reserve Bank of Chicago. Generally speaking, I shall stick to the Algeciras plan for January unless and until you say it is impossible from your standpoint: but in any case the meeting needs to be conducted with great caution. I do not know to how many European Bankers you have written or how many of them you expect would travel to Algeciras? But whether you come to Europe for January and February or for a longer visit, I am sure that you and I (with such others as you may select) should meet at the earliest possible moment: once at Algeciras we could decide about migrating to some other place in the French Riviera or elsewhere. Anyway, please keep me informed of your plans as soon as ever you know them.

Just so!

Furthermore, I have your letter of September 23rd acknowledging the Midland Bank reviews. My impression

is

is that the articles in the end recommend firstly co-operation between Central Banks on money policy and the like and secondly publicity. In my view, as we have agreed many times, salvation is likely to be found only through such co-operation. On the other hand publicity as to decisions resulting from co-operation might increase the profits of the Midland Bank and others but would make a public target out of the decisions and would leave them much more difficult to achieve. Therefore, with that unfortunate British shrinking instinct of which you sometimes complain, I am against all publicity!

I take this opportunity also to thank you for pulling my leg in your letter of September 27th. The meeting went all right but not nearly as far as the reports have indicated.

With kindest regards,

Yours most sincerely,

His name.

Benjamin Strong, Esq.

No announcement takes
place about next year till early
in Nov.^r: a month hence

9 Oct. 1927

Thorpe Lodge
Campden Hill. W.8.

My dear Ben.

I am in the country on Sunday + have none of your letters here to answer. But I have often written to you lately + there is not much left to tell you. The question of our internal arrangements has been gradually coming to a head - finally by a recommendation from a Com^{tee} that we return permanently to the old system of rotation after a couple more years, during which time I should be expected to make everything ready for the return. In principle this prospect is attractive to our older colleagues who were brought up on rotation + have hardly realised the inwardness + permanence of the gulf between now and 1914. It also seems to be attractive to Kindersley + you know the reasons well enough. In practise those of us who realise the gulf (or think we do) believe that rotation may be attractive as a prospect but in reality is impossible (-at least in our lifetime) So I guess the recommendation will be turned down - after it has somewhat cleared the air - + we shall continue to develop on the present lines... i.e. with Harvey, Siepmann, Niemeyer, Stewart + so on: + perhaps with the difference that some of them may become Directors. Any way no changes are likely (in the ordinary course) so far as Lubbock + I are concerned for a couple of years a so.

I tell you all this, but dont write to me at the Bank about it - address to Flodge. IN case you do not find it possible to go to Algeciras, let me know if I should come to N.Y. about Jan 1st. Its for you to say: but I hope for the former. You have not said much about Phil but I like to think his sky is clear. And you never say a word about yourself. Shall I take no news as good news? Give my love to Harrison in case he should forget me! + with the same

I am yours[signed] MN

No announcement takes place
about next year till early in
Nov^r: a month hence.

This was answered by hand
9. Oct 1927.

THORPE LODGE,
CAMPDEN HILL. W. 8.

My dear Ben. I am in the country on Sunday & have
none of your letters here to answer. But I have often
written to you lately & there is not much left to tell
you. The question of our internal arrangements ^{has} ~~have~~
been gradually coming to a head - finally by a
recommendation ^{from a Comtee} that we return permanently to the old
system of rotation after ~ couple more years - during
which time I should be expected to make everything
ready for the return. In principle this prospect is
attractive to our other colleagues who were brought
up on ^{rotation} it & have hardly realised the awkwardness &
permanence of the gulf between now & 1914. It also
seems to be attractive to Henderson & you know
the reasons well enough. In practice those of us
who realise the gulf (or think we do) believe that

Robertson may be attractive as a prospect but in reality
is impossible (- at least in our lifetime) So I guess
the recommendation will be turned down - after it has
somewhat cleared the air - we shall continue to
develop on the present lines ... i.e. with Harway, Siepmann
Niemeyer - Stewart & so on: & perhaps with the difference
that some of them may become directors. Anyway
no changes are likely (in the ordinary course) so far
as Lubbock & I are concerned for a couple of years also.

I tell you all this, but don't write to me at the Bank
about it - address to Podge. In case you do not find
it possible to go to Algeria, let me know if I should
come to N.Y. about Jan 1st. It's for you to say: but
I hope for the former. You have not said much about
Phil but I like to think his sky is clear. And you
never say a word about yourself: Shall I take no
news as good news? Give my love to Harrison in
case he should forget me: & with the same
I am yours thine.

PERSONAL.

Bank of England,
London, E.C. 2.

10th October, 1927.

My dear Strong,

Your letter of the 24th September raises many points and asks many questions which no one could answer precisely: I can only do so very generally.

Your account here has now been liquidated, which is satisfactory, and I realise that after the fall and winter demand for credit with you has run its course, your domestic portfolio and advances will need also to be liquidated. This would seem to be natural enough: I should suppose that, after the crop movements are completed, the credit which they have required would flow back and provide the liquidation of that normal seasonal expansion of credit.

Any expansion which takes place here on similar lines is on a very small scale. Our demand is more to meet the importation of raw materials; and this demand, which usually weighs heavily on the Exchanges during the back end of the year, seems at the present time to have been so immensely lightened by the strength of sterling (following your rate movements) that I hope it may be negligible.

As to our money market position, we seem generally to be in a satisfactory condition for the time of year:

the

PERSONAL

Page 2.

Benjamin Strong, Esq.

10th October, 1927.

the Bank has complete control of the Market - aside from gold possibilities to which I will refer later. I have no means of knowing how great is the total of American balances in London, but I have no reason to think that it is abnormal, and the only excess, so to speak, to which one can point results from the proceeds of the gold taken over by the Reserve Bank from the Bank of France and now a debt by London Bankers to New York Bankers. If I remember rightly the amount was about £12,000,000. I imagine that these balances, which are more or less continuous in the shape of term deposits, will have largely been fixed until the middle or end of November, and because they will roll along I should hope would then cause no inconvenience. With the exception of the French gold above mentioned, I do not think that London owes any more short money than usual to foreigners. There is of course always a large amount of such money in London representing the claims on London of other countries; the greatest 'claimant' to-day is doubtless the Bank of France. But others, such as Holland and Germany, are probably lower than usual.

Similarly I have no means of knowing how great is the total of American and other foreign investments in London: they are generally thought to be increasing but on no evidence that is convincing. If our tax burden on income is reckoned, I
should

PERSONAL

Page 3.

Benjamin Strong, Esq.

10th October, 1927.

should think such sterling investments are only in speculative securities or to some extent in Foreign Bonds.

Insofar as I can form plans for the future, they are to run along indefinitely with a $4\frac{1}{2}\%$ Bank Rate: a full $4\frac{1}{4}\%$ private rate of discount (I am trying to impress upon our dealers the need for a continuous and more or less rigid rate of private discount rather than a rate which fluctuates according to the passing value of short money): and short money averaging $3\frac{1}{2} - \frac{3}{4}$. As your call money rate has lately kept low no inconvenience has been felt by its pulling on London, as seemed possible a few weeks ago.

Omex

Our Government is well supplied with Dollars for its prospective needs and no purchases on that account are likely during the present year. I am holding our own Dollars in reserve and, if anything, increasing them from time to time as opportunity offers. But it is far too early to forecast their possible use in connection with the amalgamation of the Note issues: that amalgamation continues to be remote rather than immediate.

As to the gold position, you know that our holding now barely exceeds £150,000,000 and that during the last few weeks practically all the gold that might have been available for London has been taken directly for Buenos Aires from Cape Town, together with a moderate amount taken directly from London

to

PERSONAL

Page 4.

Benjamin Strong, Esq.

10th October, 1927.

to Buenos Aires. The recent shipments from these two points aggregate about £10,000,000. However, the Argentine demand seems now to have slackened and there is a prospect of more regular shipments to London beginning again from the Cape. Other than the continuous and regular loss from London for trade and hoarding and innumerable purposes all over the World, aggregating fully £100,000 a week, I know of no early and insistent purchasers: the Argentine remains a possibility: Brazil talks of setting up larger gold reserves: India is not at all likely to purchase on any large scale: Russia is, so to speak, off the map: and none of the European countries is likely to be greedy. Thus a portion of any future arrivals from the Cape may well stick in London; and as I hinted to you in an earlier letter, we here will no longer be as chary as hitherto of occasionally paying over the minimum price of ^{s d} 77/9 if it should seem wise to do so.

Finally, I hope that you and I will both find it possible to retain our rates for months to come at their present levels. It would indeed be a disappointment if the present dispute as to your discount changes should force upon you an unwilling rate policy. Similarly, I like

to

PERSONAL

Page 5.

Benjamin Strong, Esq.

10th October, 1927.

to think that the recent advance by Schacht of his Bank Rate and the probable (I think) advance by Vissering before very long need not affect the general level.

With warmest regards,

Yours most sincerely,

Livingston

Benjamin Strong, Esq.

22/9/27/5702

Bank of England

10th October, 1927.

My dear Ben,

The signing of the photographs which you sent me in August has now been completed and those allotted to you have been returned today. I hope they will reach you safely.

With kind regards,

Yours most sincerely,

Hisoman.

Thank you for sending my copies
of all the trouble.

Benjamin Strong, Esq.

Bank of England

10th October, 1927.

My dear Ben,

The present moment appears opportune for sending you a further budget of cuttings regarding the Chicago controversy. The interest which the Press here took in the subject seems to have waned.

Yours most sincerely,

W. Roman.

Benjamin Strong, Esq.

49
PERSONAL

Bank of England,
London, E.C.2.

11th October, 1927.

My dear Strong,

The cable which I sent you on the 8th instant (No.191/27, paragraph 2) has really answered your personal letter of the 23rd September.

Salter was here for an hour or two last Friday, and we discussed all sorts of questions including in particular the possibility of his visiting America this Fall.

It was clear to me that Salter is not very well: that he needs a rest (which he will not get) and that it would be extremely inconvenient, even if possible, for him to go to New York in the near future. Therefore I am sure you will agree with me and with him in thinking that he should not go: that is his decision, based partly on the above facts and partly on the cable which he received directly from you last week. All the arrangements, and especially the publicity, in connection with Jeremiah Smith's appointment to the Financial Committee have been so satisfactory that the need for Salter's visit has largely disappeared: and we have done no more than interpret your letter under reply in reaching his decision.

Of course I am more sorry than I can say that Dwight Morrow should have ceased to be a banker and that, in his zeal for public service and sacrifice, his wonderful gifts should

be

PERSONAL

Page 2.

Benjamin Strong, Esq.

11th October, 1927.

be lost to all of us and, for a time at any rate, should be expended on those good-for-nothing Mexicans. All of this and much more I hope you have conveyed to him in appropriate language.

With warmest regards,

Yours most sincerely,

W. Rossman

Benjamin Strong, Esq.

204
PERSONAL.

Bank of England,
London, E.C. 2.

11th October, 1927.

My dear Ben,

I am perplexed by the continued strength of sterling for which no adequate reasons seem to be forthcoming: hence my cable yesterday (No.193/27), to which I have your answer to-day and I shall act accordingly.

The dollars which have lately been bought cost $4.86\frac{15}{16}$ and upwards; and that is a price which in October 1927 cannot be justified so far as I can see and smell. No exceptionally large sterling deposits are being made by your Bankers that I can discover: no exceptionally large sums are being lent here or one would have heard something of them: and although the purchase by your people of speculative or semi-speculative sterling Securities is exceptional, I doubt if it is very large. Thus I can only explain the present rate of exchange by a concatenation of such circumstances as these, each one of which is comparatively unimportant in itself.

I would answer your cable, No.110/27, as follows:-

As regards an answer to your question, I personally hope and intend to retain approximately our present dollar holding until the amalgamation of Note issues. Next, I expect to sell dollars in such circumstances as those which arose last summer

over

PERSONAL.

Page 2.

Benjamin Strong, Esq.

11th October, 1927.

over the balances of the Bank of France: the same circumstances, of course, cannot arise but a similar sort of mix up might well arise. Finally, I intend to help the exchange rate if it falls materially below, say, 4.86 owing to economic and not to political reasons: to try to maintain the exchange against political forces is, you will agree, to spit against the wind.

Yours most sincerely,

W. H. C. Williams

Benjamin Strong, Esq.

0337
s.s. "HOMERIC"
12.10.27.

PERSONAL



11th October, 1927.

*

My dear Ben,

Both you and Dr. Stewart will like to see the statements, misstatements and imaginings which have appeared in our Press as a result of the report regarding Dr. Stewart which formed the subject of your cable No. 106/27.

Dr. Stewart will please accept my apologies for any liberties which have been taken with the spelling of his name.

Yours most sincerely,

(SIGNED) M. NORMAN

Benjamin Strong, Esq.

ESM

PERSONAL.

Bank of England
London, E.C. 2

12th October, 1927.

My dear Strong,

In continuation of my letter to you of the 13th September on the subject of an article which appeared in the "Financial Times", I have at length received a reply from Mr. Snowden.

And now let me carry the matter one step further by sending you a copy of his reply - and a very nice reply too! As I said, I think you treated his article too seriously and he says much the same thing. Perhaps you need not worry your head any more about this?

Yours very sincerely,

Hisoman

Benjamin Strong, Esq.

COPY

Eden Lodge,
Tilford,
Nr. Farnham, Surrey.
7th Oct. 1927.

Dear Mr. Norman,

I owe you a very abject apology, which I hereby humbly tender, for the long delay in thanking you for your letter of the 10th ult. and the enclosure of Mr. Strong's communication.

Mr. Strong has been too sensitive about the general observations I made in the article. If he had seen it all I think he would not have been so upset.

I am glad, however, that it has brought forth such an extremely interesting and informing statement from him about the policy of the Federal Reserve Board. I have read and re-read it with the deepest interest. It does not, however, reassure me altogether as to the usefulness either to America or Europe of the vast proportion of the world's gold now held in the United States. In the hands, or under the control, of a man of international outlook like Mr. Strong the possible dangers may not arise, but it might be a temptation to others in changed industrial conditions in America.

I am glad, as I have said elsewhere, that the two great Central Banks are in the hands of men who so fully appreciate their great moral as well as their financial responsibilities (Can we separate the two?) and I can sleep peacefully at nights knowing that all will be done for the best.

With all good wishes and kindest regards,

I remain,

Yours sincerely,

(Sd.) PHILIP SNOWDEN.

Rt. Hon. Montagu C. Norman, D.S.O.

PERSONAL

*Sept. 1927
issues in
Library*

Bank of England

14th October, 1927.

My dear Strong,

I do not remember whether the "Banker" is a magazine which you see regularly but in case it is not, I am sending you, herewith, the September and October numbers as they contain some articles which I should like you to see.

Yours very sincerely,

Wiseman.

Benjamin Strong, Esq.

[C O P Y]

Oct 16. 1927

Thorpe Lodge
Campden Hill. W.8.

My dear Ben

Your little note about Poland happened to have just arrived when G.McG. came in + sat with me for an hour, without mentioning your note. I explained to him the whole set-up of this Loan so that he might explain to you as he said he would do: indeed he seemed already to know quite a lot about the situation.

I think the Prospectus reads very well - now that I have seen it + I will try to help along the Bonds in a quiet way. But what you are up against (in what you write) is feeling- deep-rooted: to which figures are an inadequate answer. Your friend Kiddy + the like are mild + impartial compared with ~~in-comparisen~~ with many many others: + and have not been unfriendly in what has appeared here. There are two particular points which I did not underline (or perhaps mention) to McG + which cannot help: 1st the omission of the League + 2nd issue by Lazards (after several others had originally discussed + considered it) And you know Kindersley!

Dear old McGarrahan was in fine form - friendly + communicative + nice about you: but he seemed to fear trouble later over this rate-controversy.

I wrote you a week or so ago about our internal arrangements. Our meeting always takes place round about Sept 20th: Our decision as to next Governors is always published about Nov 8th

Amy has gone away for a few weeks - prevention this time + not cure: gradually I am sure she is climbing up to the top.

Ever affy yours
[signed] MN

Oct 16. 1927

THORPE LODGE
CAMPDEN HILL. W. S.

My dear Ben

Your little note about Polans happened to have just arrived when G. M. G. came in & sat with me for an hour. Without mentioning your note, I explained to him the whole set-up of this Loan so that he might explain to you as he said he would do: indeed he seemed already to know quite a lot about the situation.

I think the Prospectus reads very well - now that I have seen it & I will try to help along the Bonds in a quiet way. But what you are up against (in what you write) is feeling - deep-rooted: to which figures are an inadequate answer. Your friends Kiddy & the like are mild & impartial compared with in-comparison with many many others: &

and have not been unfriendly in what has appeared here. There are two particular points which I did not underline (or perhaps mention) to M^c G. A which cannot help: 1st the omission of the League & 2nd come by Hazard (after several others had originally discussed & considered it) and you know Knickerbocker!

Dear old Wharwell was in fine form - friendly & communicative & nice about you: but he seemed to have trouble later over this rate-controversy

I wrote you a week or so ago about our internal arrangements: Our meeting always takes place round about Sept 20th: Our decision as to next Governor is always published about Nov 8th

Amey has gone away for a few weeks - prevention his time & not cure: gradually I am sure she is climbing up to the top.

Ever affly yours
M^cG.

PERSONAL

Bank of England

18th October, 1927.

My dear Strong,

Remembering your request about newspaper cuttings, I am sending you a number of ^{loose in file} extracts concerning the recently reported utterances of Senator Glass and others on the subject of the control of foreign loans.

Yours very sincerely,

Hisoman.

Benjamin Strong, Esq.

PERSONAL.

Bank of England
London, E.C. 2

25th October, 1927.

My dear Ben,

Please read this letter and then stick it up and mail it to old Waddy whose address I cannot remember.

Stephen Vivian Smith is a son of your friend Lady Sybil, and so if he should ever find his way to New York you, too, might like to shake him by the hand.

Yours very sincerely,

Hisoman.

Benjamin Strong, Esq.

check
address

Received

NOV 3 1927

W.R.B.

Bank of England

25th October, 1927.

Dear Dr.Burgess,

I have received your letter of the 13th October and am indebted to you for explaining to me the expressions "Labour demand" and "Labour turnover" about which I wrote to Mr.Strong.

I am grateful too for your kind reference to our arrangement with Dr.Stewart: you may be sure that we are impatient for his arrival and we look forward with pleasure to his sojourn with us.

Believe me,

Yours sincerely,

Dissonant

Dr.W.R.Burgess.

PERSONAL.

Bank of England,

London, E.C. 2.

26th October, 1927.

My dear Strong,

I have had little to say to you these last few days, but in order to keep the ball rolling I should like you to know that courtship between the Bank of Italy and the Bank of England is proceeding as hopefully as if it were Spring rather than Autumn. I think that we shall shortly have quite a comprehensive and co-operative account and understanding.

This echoes, as it were, what you wrote to me on the 25th August (paragraph 4) and recognizes that we cannot rightly or wisely rule out the Bank of Italy because of its dependence. Considering traditions and present circumstances, I do not think one should complain; especially if, as seems possible, the measure of their independence is increasing.

Italy is not a free country in the usual sense of the word, and certain things are lacking which in a liberal country like England are apt to be missed; for instance, freedom of speech, freedom of the Press, freedom of politics and so on. But the fact remains that she has made economic and financial progress and is probably making social progress too. It is difficult to know whether the present régime is becoming acceptable to Italians as a whole; but at any rate it has survived a period of strain and it continues.

In

PERSONAL.

Page 2.

Benjamin Strong, Esq.

26th October, 1927.

In this connection Mr. Beneducci, whose name of course is familiar to you, came and had a long talk with me last week. He is said to be a close friend of Stringher, and I only mention him for the sake of reporting to you a casual remark of his to the effect that Stringher had been disappointed not to find himself in New York among the other birds of his feather last July!

2. I just acknowledge your note of the 19th instant and some day will take the opportunity of telling Mr. Snowden how much you appreciated his letter.

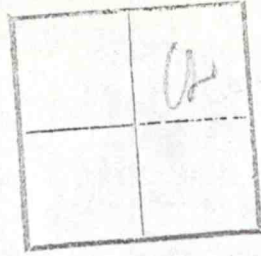
Yours very sincerely,

Wiseman.

Benjamin Strong, Esq.

387

115



26th October, 1927.

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My dear Strong,

The Economic Section of the League of Nations has for some years been interested to promote greater uniformity in the compilation of economic statistics. I believe it is proposed to call a Conference in the Autumn of next year with the object of reaching definite international agreement on this subject. No action has however yet been taken about monetary and banking statistics. After consulting a number of European Central Banks, the Officials of the League have come to the conclusion that it would be useful to arrange an informal meeting of the statistical or information officers of Central Banks in the belief that the simple fact of bringing these officers together might clear up a number of points regarding the interpretation of information now published. It is intended that the discussion should be confined entirely to statistical problems and any questions which touched upon Banking policy would be definitely ruled out. M. Quesnay of the Banque de France has been approached and is likely to take the chair. Although the League would make the necessary secretarial arrangements if the suggested meeting is approved by the majority of Central Banks, it is not proposed that the League should defray the

expenses

expenses, nor that any sort of League Committee should be set up. The place of meeting will very probably be Paris and possibly the Banque de France itself. The date may be about the end of February, 1928.

I have been asked to discover from you quite privately whether you would wish an invitation to be sent to the United States. If you prefer not to be represented, the meeting can quite well be confined to European Banks, as Canada in any event does not enter into the question, and South America is too distant for convenience. From our own point of view, there are pros and cons, but we should probably decide to send a relatively junior officer of the Bank. No letter of invitation will be sent out until you have given me an indication of your views, and I in this matter am acting only as an intermediary, so that your views may be privately expressed, and the League may adapt its arrangements to them.

Believe me,

Yours very sincerely,

(SIGNED) M. NORMAN

PERSONAL

Bank of England

28th October, 1927.

My dear Strong,

You may like to see the articles which I am sending you herewith on the Dawes Plan by Professor Cassel and Sir Josiah Stamp, also some reports taken from our Press of the proceedings at the Convention of the American Bankers Association.

Yours most sincerely,

Hiseman.

Stat. e. mkt.
Oxon mkt.
15.000.
Rath Cont.

~~Calver~~ ✓
~~Mich. Stamp~~ ✓

Benjamin Strong, Esq.

~~Mr. J. ...~~ ✓
~~Prof. Cassel~~ ✓
~~Stamps~~ ✓
Kent ✓
Rounds ✓
J. C. ... ✓

PERSONAL.

Bank of England,
London, E.C.2.

31st October, 1927.

My dear Ben,

I just write to acknowledge the receipt of your letter of the 18th instant about the Greeks and their discussions in Washington. There is nothing new here to report on this subject, except that the Swedish possibilities mentioned in my letter of the 3rd October rather seem to have faded away.

I have of course seen reports of grumblings about the control of foreign borrowings through your State Department but it all seems to be vague and inconclusive.

A few days ago I received also your note of the 19th October, which provokes me to say nothing more than that I wish, as soon as you can do so, to have your views as to Algeciras in a more or less definite form. For the moment, I quite understand your plans must depend on what attempts may be made to tinker with the Federal Reserve Act towards the end of the year.

I am glad you saw Gaspard Farrer and Bruno Schröder: like yourself, I do not seem to have known that the latter was going across the Atlantic.

Of course I am delighted to hear of Miller's satisfaction with your condition and am content to ignore the result of taking a tub!

Yours most sincerely,

Hisoman.

Benjamin Strong, Esq.

Ret'd. by Mr Harrison 12/13/27 unanswered

PERSONAL.

Bank of England,
London, E.C.2.

1st November, 1927.

My dear Strong,

Your letters of the 20th and 21st October were written, as you say, to keep me posted and cover a number of points, few of which really seem to require answers. But over the next few days I may refer to one or two of them and to begin with I will touch only on Portugal.

Paragraph 4 (which occurs on the second page of your letter of the 20th) mentions a cable from Lazards, London, to the Guaranty Trust to the effect that we and others are pursuing the Portuguese negotiations somewhat actively. On the whole, I think the reverse would be a true statement of what has occurred.

I wrote to you on this subject on the 29th September and since then nothing seems to have happened except that Lazards have received the report as mentioned at the bottom of my first page. I have not seen this report and have had no conversations about it with Lazards or with the Portuguese: I should imagine Lazards were anxious to be quit of the business unless it can be directed through the League on proper lines and, personally, I doubt whether they or anyone could or should undertake the business except through the League.

All

*Mr Harrison
please prepare replies*

PERSONAL.

Page 2.

Benjamin Strong, Esq.

1st November, 1927.

All I can do therefore is to enclose, for your confidential use, an estimate for what it is worth of the present situation in Portugal.

Yours very sincerely,

Hirshman

Benjamin Strong, Esq.

PORTUGAL

(based on information received from confidential sources)

Population about $6\frac{1}{4}$ millions, including adjacent islands.

Funded Debt External - £30 millions net.

Internal - £ 9 millions, excluding funded debt for a large amount held by Government Departments, Savings Banks, etc.

Floating Debt External - £1.5 millions.

Internal - £38 millions, which will tend to be increased by Budget deficits.

Present Budget deficit - £3 millions. No early prospect of a balance.

Estimated requirements in the near future, several hundred thousand pounds a month, if the exchange is to remain stable; to deal with the situation comprehensively, at least £10 and possibly £15 millions.

The Government is a Military Group Dictatorship, drawn from what are probably the best elements in the country, but without administrative experience. It already has to its credit the settlement of war debts with England, the settlement of a long-standing dispute with Spain about the water-power of the Douro river and an improved administration of the Colonies. It is an open question whether the Government is or is not constitutional: but it is the best the country has had for a long time.

Politics. The population is Monarchist in the country-side and Republican in the towns. The big Commercial men have tended to be Monarchist, but are now showing a desire to cooperate with the present Government. Exiled Radical

politicians

politicians intrigue continuously against the present Government and regard economic or financial disturbance as their best weapon. The late King Manoel does not intrigue and would not be acceptable to any party. Currency depreciation would probably bring down the present Government.

The Colonies are a financial drain, but to a diminishing extent. The Home Government gave £1 million to Mozambique last year and stabilised the currency at 20% below par. Angola is a good proposition in the long run, but likely to be expensive for some time yet. Colonial resources would not be available for any scheme of financial reconstruction.

Once the finances have been squared, a great need of Portugal is for roads, which would be an indirectly productive investment.

The chief obstacle to financial reconstruction is the national pride, because it is perfectly certain that reconstruction could not be safely financed without external control. Given such control, in fact if not in name, there would perhaps be a fair chance.

308

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	U

PERSONAL

1st November, 1927.

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My dear Strong,

In reply to your letter of the 20th October on the subject of Norway, I enclose one or two Comments on the Memorandum you have sent me: and also a confidential Note (prepared for you personally by Siepmann) on the general situation last August, which I hope may be of use to you.

I will certainly keep you informed of any further developments.

Yours very sincerely,

(SIGNED) M. NORMAN.

Benjamin Strong, Esq.

NORWAY.

Comments on the Norwegian Memorandum.

(a) The table given on page 4 showing the international position of Norway does not include the foreign exchange held on the joint account of the Norges Bank and the State. This should be added to column 1. It has only been published as a separate amount since July last and was previously hidden in the item "Discounts and Advances" in the Norges Bank Return.

This account amounted to Kr.60,000,000 at the end of August 1927 and when it is included in the table, Norway is shown to have a creditor balance of Kr.5,000,000.

(b) Page 6. Balance of payments. The Central Office of Statistics of Norway published a table in the April 1927 number of their Bulletin which estimates Norway's balance of payments as - Kr.71,000,000 in 1925 and - Kr.25,000,000 in 1926.

(c) The burden of taxation is estimated by the Economic Section of the League of Nations (see Memorandum on Public Finance 1922/6) at 20% of the total national income in 1923/4. The estimate for Great Britain is 22% for the year 1924/5.

31st October, 1927.

CONFIDENTIAL

NOTES ON A VISIT TO OSLO - 22nd to 24th AUGUST, 1927

1. If sterling had followed the same course as the Norwegian Crown, we should have had dollar rates of \$6.13 at the end of 1918 and \$3.70 a year later. After fluctuating below this level for the next four years, the rate would have averaged \$2.50 in 1924 and \$3.25 in 1925. From about \$3.10 in June 1925 it would have risen steadily for two years to \$4.70, and we should now be within some 3 per cent of pre-war parity.

2. In such circumstances it is difficult to contemplate any other policy than that pre-war parity should be restored and maintained. Yet in Norway some politicians still advocate devaluation, and both this year and last year a motion was introduced (and overwhelmingly defeated) in the Storting, advocating the deliberate depreciation of exchange. The Labour and Agrarian parties, which agree in little else, have combined to recommend devaluation during the election campaign now proceeding. But it is doubtful whether, if they came to power, they would practice what they preach. M.Rygg said that the Storting can have nothing further to say in the matter and that the question is now entirely for the National Bank and the Government, who are agreed on the restoration of pre-war parity. It is significant that a so-called Communist has recently been elected to the Board of Norges Bank, and that he has proved entirely amenable, though in the Storting he is a firebrand.

3. The influence of the Norges Bank is said to be paramount in all monetary questions. The Banks, of which there are only a dozen or

so that count, accept without question the guidance of the Central Bank in matters of policy. A good example is the arrangement, described below, (paragraph 15) for neutralising the effect of an influx of foreign money. The Board consists of five members, two of whom, (the President and Vice-President) are appointed by the King, in fact for life although in form they are liable to six months' notice. The Board meets every day, and the elected members (who are paid some £300 a year) regularly attend.

4. The General Election will take place in October. It will probably result in a slight leftward movement, the present Government being Conservative. It cannot result in any change in the Constitution of the Board of the Norges Bank, because the three members elected by the Storting hold office for three years, without regard to political changes. The present Board will remain as it is for three years more.

5. The banking system is very decentralised: (see Mr. Eriksen's article in the Norwegian Trade Review - No.2, 1927). In a country with a population of less than 3 millions there are 580 separate savings banks and 160 joint stock banks: but 162 of the former and 90 of the latter account for 80 per cent. and 90 per cent. respectively of the total capital of which they dispose. The organisation - probably for geographical reasons - is essentially regional. The whole country is divided into twenty counties (of which two are the county-boroughs of Oslo and Bergen, containing together about half a million inhabitants). The counties are each governed by a Lord Lieutenant, and are subdivided into some 400 districts or "municipalities". Banking interests are predominantly

local and specialised; so that some of the chief financial problems and difficulties in Norway are "municipal".

6. The debt of the "municipalities" (or districts), which is a quasi-public debt, has risen from less than £12 millions in 1914 to over £80 millions in 1926, and it has been more than doubled since the war. It was incurred, for the most part, towards local banks and savings banks, on a short-term basis, during a period of rising prices. About one-half of the increase since 1913 is said to be due to the necessity of developing water-power, for the purposes of lighting and heating, in substitution for coal, which could not be obtained during the war.

Already the financial troubles of the "municipalities" have involved the Central Government in financial responsibilities and have led to an extension of its control: and the reason why Mr. Rygg must leave Oslo at the end of this month is that he may go to Trondjem to arrange, if possible, for the amalgamation of three banks which have got tied up in municipal finance. The solution of the problem - which is clearly serious and fundamental - is to be sought by way of a "Municipalities Bank" which the Storting has decided to establish with Government capital, and of which great things are hoped.

7. The State Budget may now be said to include all the income and expenditure of the Government. Until recent years there have been extra-budgetary items (e.g. the so-called "Crisis Loan"), but now the Budget is comprehensive, although a number of State undertakings are included nett instead of gross. The financial year ends on June 30th. From 1920 until 1925/6 there were deficits which were mainly met by

borrowing internally through the "Crisis Loan".[⌘] There is now a balance and the real crux is whether this balance does not involve a tax burden and a debt burden which in the long run will prove to be insufferable. The Budget has, roughly speaking, kept pace with the currency. It has been halved (Kr.367 millions for 1927/8 as against Kr.748 millions in 1920/1) while the value of the currency has been doubled. There is no reason to anticipate that the Norwegian Government will require to borrow - either at home or abroad - for a period of years.

8. The State undertakings, apart from Railways, Post, Telegraph and Telephone, are not many. There are some electricity works and a mill. There are no commercial monopolies. The State undertakings for the most part show a balance on the right side, but the Railways are estimated to be run at a loss in 1927/8, in spite of terrific fares which must certainly be reduced.

9. The concentration of Government balances with the Norges Bank would be of more importance if there were any real money market to control. The normal system is for the Government to work on a cash balance, and the Norges Bank pays interest (now 3%) on Government money beyond a certain minimum balance. But for the moment the Government is rather a borrower than a depositor. The Norges Bank is precluded by its Statutes from making advances to the Government,

⌘ Note

The "Crisis Loan" of 200 million Kroner was intended to be a kind of capital levy. The idea was that the service of the loan should be met entirely by a special levy upon the owners of property. This was the reason for its being kept out of the Budget. The original conception has been now more or less abandoned by general consent.

and the Government therefore takes Ways and Means from private banks. A system of Treasury Bills has also been tried, but the Norges Bank objects to this, at any rate for the present, on the ground that, so long as there is any prospect of currency appreciation, it acts as an attraction to foreign money on a short-term basis.

10. The debt burden now amounts, for the Central Government, to about £90 millions, against less than £20 millions before the war; and for the "municipalities" to over £80 millions. Together, these debts amount to about £60 per head of the population as against £12 per head before the war. The tax burden, municipal and state, is more than four times the pre-war burden. The total assessed income is estimated to have been more than trebled in the same period. These multipliers 3: 4: 5 for assessed income, tax burden and debt burden really summarise the Norwegian problem. I found it impossible to extract any definite opinion about what a tolerable debt burden or tax burden might be, in the opinion of the Norges Bank. To this and to a great many other questions I received the reply that the problem is very difficult, and that it would be rash to venture an estimate.

11. The fact that the cost of living has failed to keep pace with the downward movement of wholesale prices was attributed mainly to taxation. In June 1925 the two were both at about 260, whereas today the cost of living is still around 200 while wholesale prices have fallen to 165. The tax item in the cost of living index stands at 285 as against 20 in 1914. Without it, the present cost of living index would be 184 instead of 201.

12. For two years the Norwegian wholesale index has been consistently above gold parity with America. The view of the Norges Bank is that the difference of some 20 points, which exists at present, is not due to any lasting circumstance, such as the constitution of the index or the choice of a base date. On the contrary, the Norwegian index, compiled only a few years ago, was deliberately made comparable to that of the U.S. Bureau of Labour Statistics and it particularly includes the articles which most enter into the international trade of Norway. The expectation therefore is that the purchasing power parity theory will in course of time be vindicated by the further approximation of the Norwegian to the American index.

13. Movements of the Note Circulation cannot be correlated with the internal or external value of Norwegian currency. The nominal value of notes in circulation is now roughly three times what it was before the war. But it has remained in this neighbourhood since the beginning of 1926, while wholesale prices in the same period have fallen from 214 to 165, the cost of living index has fallen from 216 to 201, and the value of paper crowns in terms of gold has increased by some 30 per cent. The whole subject of paper currency circulation is regarded by the Norges Bank as something of a mystery. There is no reason, so far as they know, for regarding the present circulation in Norway as abnormal, though it looks too high. The best justification that can be furnished is the experience of other countries - e.g. Switzerland and Denmark. (See the Annual Report of the Norges Bank, page 42).

14. Interest rates in Norway are normal. A bank rate of $4\frac{1}{2}\%$ (as at present) was quite usual before the war, and Bank rate is taken, by common consent as determining the bill rate in the open market. Although the liquid reserves of the private banks (despite the recent withdrawal of foreign balances) are at a relatively high level, there is no apparent disproportion between the rates for short and long-term money. A 5% security, guaranteed by the Norwegian Government and redeemable in 1937/87 is quoted on the Stock Exchange within a point or two of par. In general, the rate of interest in Norway for short and long money may be said to be falling.

15. The influx of short money from abroad was successfully neutralised by an arrangement between the Norges Bank and the other banks, limiting the amount of foreign balances on which interest would be paid. At first the arrangement operated as a limit to the amount which might be taken at interest from any one customer. Later, the aggregate amount of foreign deposits to be taken at interest by particular Norwegian Banks was limited, the banks being left free by this "contingent" system to make such distribution between customers as they might choose. Any excess received above the stipulated amount had to be deposited with the Norges Bank, where of course it carried no interest. The arrangement worked perfectly well, and the Norges Bank does not fear that a renewed influx of foreign money, if it were to take place in anticipation of the return of exchange to par, would lead to any currency inflation in Norway.

16. The social consequences of deflation are no longer feared, although the workers are well organised, both industrially and politically - the two being connected in much the same loose way as

in England. The necessities of the situation have gradually come to be recognised. In 1920 compulsory arbitration was introduced, and a Court was set up which, to the general astonishment, awarded higher wages than the workers themselves had asked for. This award became operative for two years, and during these two years, world prices were falling. The deflation programme consequently had to wait upon the expiration of this award. In 1922, a new Court reduced the wage level, with the result that 1923 and 1924 were years of strikes and lock-outs. The industrial conflict looked like becoming really serious: but all the time the wage level was falling and in the spring of this year the facts were faced. A new Court decreed an aggregate reduction of 15%, and although various threats were made not to abide by the award, the expectation is that everything will proceed quite smoothly. ^{·X·}

The new award has special significance in that, for the first time, it adapts the wage level to the cost of living. Until now, the rigidity of wages for two years at a time has set strict limits to the deflation programme. The position now is that the award made in the spring of this year may be modified automatically in October. This means that from now onwards the pace can be set by the deflation programme, which need no longer wait upon the expiration of a wages award.

17. I asked how precisely the deflation programme is administered: how, for example, the Norges Bank decided that the moment had arrived for administering another dose and what measures it then

^{·X·} Note

State finances do not directly feel the effects of unemployment because, some years ago, the system of insurance was substituted for that of immediate relief.

adopted. To my first question I got a not very precise answer. The level of wages (now more adaptable) and the level of prices would certainly be determining factors. But in any event, the distance that now remained to be covered was so small that the question hardly arose. As to the means applied, I was told that the method of the Norges Bank is much rather to influence exchange by way of credit policy than to control credit conditions by interfering with exchange. The items in the Balance Sheet of the Norges Bank directly subject to the influence of its credit policy may not be very important, but the items in the Balance Sheets of the other Banks indirectly subject to such influence are decisive.

18. Intervention on the exchange market has, of course, been directed mainly towards preventing a too rapid appreciation of the Crown. Hence the loss of about £1 million which the Norges Bank will have to suffer, although two thirds of the total loss are borne by the State. (In Denmark, the total loss amounted to about £1 million, all of which was shouldered by the National Bank). There is no unofficial or "free" market in exchange.

Before the formal meeting at which official rates are fixed, there is daily an informal consultation between the Norges Bank and the Exchange Banks, at which the guidance of the Norges Bank is in practice accepted in regard to the official rate.

19. The State share of the loss on accumulated foreign exchange should have been met at the end of 1926. There was an agreed postponement, until the 15th September 1927. While I was in Oslo, the Treasury negotiated with the Norges Bank for a further postponement, and were met with a blank refusal. It is therefore to be expected that two thirds of the loss will be paid in cash next month. The

remaining third, I gathered, has already been covered by writing down the assets of the Norges Bank. For the future, the Norges Bank will no longer be partner with the State in its exchange transactions. It will deal solely for its own account. At present, the Bank has not, on balance, either to buy or to sell foreign exchange; but if the return to parity is delayed, the winter season may involve the Bank as a buyer.

20. When exchange has been restored to parity - Mr. Rygg said he thought this ought perhaps not to happen for a year or more, but that circumstances might force the pace - the gold standard can be reintroduced without legislation. It is at present held in suspense by a Royal Decree, which only requires to be revoked in order to reintroduce the status quo ante. Before the war, very little gold was in circulation, because there were Kr.5 notes that took the place of the Kr.5 gold pieces which, under the terms of the monetary union, might have been minted in gold, but in Norway never were. I was told that on the subject of gold there is really no public opinion.

21. The present regulations regarding gold cover for the note circulation date from 1892 (see N. Rygg in "European Currency and Finance", Serial 9, Vol. 1. edited by John Parker Young, Government Printing Office, Washington 1925). The contingent system was then adopted, after some 80 years of hesitation, and the Norges Bank may now issue (apart from the supplementary circulation, in abeyance since the beginning of this year) notes for Kr.250 millions (say £14 millions) more than its stock of gold held in the vaults of the National Bank or of the Royal Mint.

22. Before the war, the gold reserve of the Norges Bank amounted to rather more than £2 millions - it is now roughly £8 millions, and the Bank therefore has the right to issue £8 plus 14 = £22 millions of notes. Its present issue amounts to about £17 millions, or £6 per head of the population, as compared with £2 before the war. The strictly necessary gold reserve is therefore upwards of £3 millions, or roughly £5 millions less than what is actually held. But the tendency of legislation has been to discriminate against gold held abroad and still more against the inclusion of foreign exchange, reckoned as the equivalent of gold, in the "metal" reserves.

Conclusions

23. Assuming that the policy of a return to pre-war parity will be carried out, with the support of the Government and of public opinion, and given;

- (1) a strong Governor in the Norges Bank with security of tenure,
- (2) a sufficient control by the Central Bank over monetary conditions - including rates of interest, the exchange market, commodity prices, and the total volume of credit,
- (3) the prospect of sufficient political stability to ensure the adoption of a consistent monetary policy for a period of years,
- (4) a balanced budget, not likely to be thrown out of equilibrium, in spite of a heavy burden of debt and taxation,

(5) a satisfactory balance of international payments, not likely to be upset, except temporarily, in which case effective remedies could and would be provided by an appropriate monetary policy or, in the last resort, by new borrowing, it appeared reasonable to conclude that Norwegian currency, which certainly will be restored to pre-war parity, can - so far as technical reasons are concerned - be maintained at parity in the future, without external support.

Recd. by Mr. Harrison 12/13/27 unanswered

PERSONAL.

Bank of England,
London, E.C. 2.

2nd November, 1927.

My dear Strong,

In continuation of my letter of yesterday, I refer again to yours of the 20th October, paragraph 3. I do not properly understand what you write of your enquiry from Lazard Frères, but it seems to be in contradiction to what was arranged by Kindersley while he was in South America so far as my information goes. At one time or another I think I must have written you a note on this subject.

The transaction of last August in which Lazards were interested was surely not with Brazil but with San Paulo: its object was not currency but coffee: it was, I had thought, unconnected with any gold transactions: it was not really an acceptance credit but a cash advance (which does not of course prevent one long draft for acceptance in accordance with the usance of South America and for that matter of the Far East). I do not defend the transaction: on the contrary, I disliked it from the beginning, and I suspect it was undertaken largely as a forerunner of some form of valorisation loan next year.

I think the answer you gave was wise and, so far as I am concerned, kindly. But there perhaps has been some confusion between this San Paulo one-year advance and the Brazilian $6\frac{1}{2}\%$ Loan issued by Dillon in New York and by the usual

Bankers

PERSONAL.

Page 2.

Benjamin Strong, Esq.

2nd November, 1927.

Bankers here in the second week in October. The latter obviously may cover any Brazilian needs of gold. But in this matter of gold the Government of Brazil might of course do some juggling with the State of San Paulo and thus confuse the respective objects of the two transactions.

2. Let me interpose here a paragraph on a totally different subject. A cable from Washington dated the 31st October, which appeared in the Press, purported to give an outline of Mr. Mellon's recommendations to the Ways and Means Committee of the House as to tax reductions aggregating \$225,000,000. The cable went on to say that Mr. Mellon's programme included "the exemption from taxation of income derived "from American Bankers' acceptances held by foreign Central Banks "of Issue." I should be interested to read any remarks on these prospects.

Yours very sincerely,

W. S. Woodman

Benjamin Strong, Esq.

red by Mr. Harrison 12/28/27

PERSONAL.

Bank of England,
London, E.C.2.

4th November, 1927.

My dear Strong,

I have waited a few days before replying to your letter of the 20th October on the subject of your buying price of gold, as the question is one of great interest and importance and I wished to take counsel with some of our friends before I sent you an answer.

I realise that your proposal might be of some temporary advantage to us, by making it slightly more difficult for gold to flow in your direction; and I am grateful to you for considering it. But I feel strongly that on general principles the interests of international commerce and finance are best served if the spread between gold points is as narrow as possible: the reduction of your buying price would tend to widen them, and I should therefore view it with regret.

In my opinion, a better way of obtaining the object you have in view would be for us to increase our buying price, and, as I have already told you, we shall in future be prepared, when the occasion arises, to pay practically up to $\begin{matrix} s & d \\ 77 & /10\frac{1}{2} \end{matrix}$ for bullion.

In old days we took in bullion at $\begin{matrix} s & d \\ 77 & /9 \end{matrix}$ and gave out sovereigns at $\begin{matrix} s & d \\ 77 & /10\frac{1}{2} \end{matrix}$, the difference being based on an estimate

PERSONAL.

Page 2.

Benjamin Strong, Esq.

4th November, 1927.

estimate of the cost and delay involved in taking the bullion to the Mint for coinage. But now when no one here can demand coin, and when we are required to sell bullion and not to give out sovereigns, the difference of $1\frac{1}{2}$ d. has no longer any reason for existing. Such a difference might be logical in your case, and in the circumstances it is a curious anomaly that we should have it and that you should not, but for all that I hope that you will remain as you are, and that we shall bring our practice nearer to yours. Of course the difference between buying and selling prices, due to considerations of coinage, is an internal question: for international purposes gold is gold whether it is in the form of coin or uncoined bullion, and, in my opinion, the less difference there is between buying and selling prices the better it will be for all of us and the smoother the working of the gold standard.

Yours most sincerely,

W. W. W. W.

Benjamin Strong, Esq.

Ans. 11/16/27

Bank of England,

London, E.C. 2.

4th November, 1927.

*In Harmon
Pls. purchase reply*
PERSONAL

My dear Strong,

We ought perhaps not to have been surprised by the Polish gold requirements. Mlynarski's figures explain quite clearly why our anticipations were falsified, and why the Poles will need to import the £4 millions which they now hold earmarked here and to buy in London and import before the middle of December a further £1 million. They propose to buy £400,000 by the 15th November and a further £600,000 between then and the end of the month. If we are lucky we may be able to buy half of this £1 million on the market. The rest will be supplied from our own stock at the statutory price. Shipments begin next week and should be completed soon after the end of November. There is a detailed letter from Karpinski in the post, but I write now to let you know that the programme has already been fixed by cables of which I enclose copies for your information.

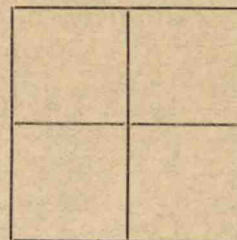
Believe me,

Yours very sincerely,

Harman

Benjamin Strong, Esq.

CONFIDENTIAL.



Decode of cablegram from :—

MONSIEUR KARPINSKI, BANK POLSKI, WARSAW.

Despatched : 5.56 p.m. (time) Weds. 2nd Novr.1927. (date)
Received ~~in U.C.C.~~ 10.15 p.m. (time) Weds. 2nd Novr.1927. (date)

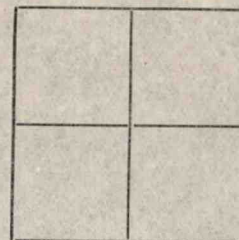
(7489) 7/24-3000

N^o. INGOTISM GOVERNOR NORMAN LONDON.

275. Taking into consideration information your letter 28th ultimo request you to buy gold for £400,000 until 15th November further £600,000 until end of November. Please arrange for shipment gold held already and newly bought so that total amount will be available Warsaw not later than middle of December particulars by mail.

PRESIDENT KARPINSKI.

CONFIDENTIAL.



Cablegram sent in code to:—

PRESIDENT KARPINSKI, BANK POLSKI, WARSAW.

Despatched: 5.45 p.m.

(time) Thurs. 3rd Novr. 1927. (date)

(7496) 9/25—1500

N^o.

276. Your telegram 275 -

1. Will buy at market price or ourselves supply at $77/10\frac{1}{2}$ ^{s d}
£400,000 not later than 15th November and further
£600,000 before 30th November.
2. Gradual shipments gold already held and above amounts
will begin immediately.

GOVERNOR NORMAN.

Bank of England

London, E.C. 2

7th November, 1927.

My dear Ben,

I wish you, please, to make the acquaintance of the bearer of this note, Mr. Olaf Hambro, who is just sailing on his first visit to New York.

With him goes another old friend of mine, Mr. A. John Hugh Smith, and for both of them I beg your kindly reception.

Yours very sincerely,

Benjamin Strong

Benjamin Strong, Esq.

Per S.S. "Olympic" - 9.11.27.

PERSONAL.

125
7th November, 1927

My dear Ben,

Here is a copy of a letter to you introducing Olaf Hambro and John Hugh Smith, who are partners, so to speak, in Hambros Bank. The former is now the guiding spirit; shrewd, industrious and gradually becoming entirely orthodox. (This, I think, for the same reason that your friend in the story recommended honesty as the best policy!) The family business was amalgamated some few years ago with a Bank largely owned and operating in Scandinavia and is sound and enterprising. You will notice that the law of Mendel has operated almost cruelly in the case of Olaf Hambro who alone among his family shows unmistakable signs of an origin which had really been forgotten!

John Hugh Smith is a brother-in-law of your friend Lady Sybil and has been only a short time with the Hambros. An old friend of mine who, if you will give him a chance, can recount to you with great intelligence most of the best gossip in London: in other words, he is intelligent and well-informed.

Yours most sincerely,

(SIGNED) M. NORMAN.

Benjamin Strong, Esq.

PERSONAL

Bank of England
London, E.C. 2

8th November, 1927.

My dear Ben,

We were pleased to be able to read the American Press version of Dr. Stewart's appointment. I do not think we produced anything quite so venomous as the sting in the tail of a comment by the Journal of Commerce, nor anything so amusing as the account of the attempts to get into touch with me by telephone at Plodge. It is quite true to say that Park 3751 was a busy number on the night of the 5th October.

Yours most sincerely,

W. S. Man

Benjamin Strong, Esq.

\$6,000,000

Kingdom of Norway Municipalities Bank

(Norges Kommunalbank)

External 5% Sinking Fund Gold Bonds

Dated December 1, 1927

Due December 1, 1967

Total authorized bonds of this issue \$6,000,000. Interest payable June 1 and December 1. Principal and interest payable in time of war as well as in time of peace whether the holders are citizens of a friendly or hostile state, at the office of National Bank of Commerce in New York, Fiscal Agent, in United States gold coin, without deduction for any Norwegian taxes, present or future, except in case of holders otherwise subject to taxation thereon in Norway. Redeemable as a whole or in part by lot at 100 and interest on December 1, 1930 or any interest date thereafter upon six months' notice. Coupon bonds of \$1,000 denomination, registerable as to principal.

Cumulative sinking fund, operating semi-annually beginning December 1, 1931, by redemption by lot, with the right to the Bank to deliver for cancellation to the Fiscal Agent bonds of this issue at their principal amount in lieu of cash. This sinking fund is calculated to retire all the bonds by maturity.

The following is summarized from information obtained by cable from B. Stuevold Hansen, Chairman of the Bank, and from other official sources:

Organization: Kingdom of Norway Municipalities Bank (Norges Kommunalbank) is the central banking institution which the Norwegian Government has established for the purpose of granting loans to Norwegian municipal bodies. The Bank was established pursuant to provisions of Norwegian Law of February 12, 1926 and commenced business September 1, 1927. The Bank has foundation capital of \$5,360,000 (Kr. 20,000,000), and reserve fund of \$804,000 (Kr. 3,000,000) fully subscribed and paid in by the Norwegian Government. Principal office of the Bank is at Oslo, the capital of Norway. Operation of the Bank is by the Government through a Board of three members, the Chairman of the Board being appointed by the King of Norway and the other two members by the Norwegian Storting. The Bank operates under the supervision of the Ministry of Finance.

The Bank's resources will be increased beyond the foundation capital and reserve fund mentioned above by any undivided profits, which must be added to reserve fund, and by any issuance of participation capital shares as described below.

Operations: The Bank grants loans only to Norwegian municipal bodies and similar political subdivisions in Norway. Norwegian Law provides that when the Bank grants loans out of funds borrowed by it in foreign currency, it must make such loans in, and such loans must be repaid in, the same foreign currency. The proceeds of this loan, therefore, shall be loaned to Norwegian municipal bodies only in United States Dollars and both principal and interest of such loans must be payable to the Bank in United States Dollars. All loans applied for must be approved by the Ministry of Justice, and prior to granting loans the Bank is directed by Royal Decree of August 5, 1927, to assure itself that the financial and economic condition of the borrower is satisfactory. The Bank enjoys certain powers of restriction on further financing of municipal bodies to which it grants loans, including power to prohibit with the consent of the Ministry of Justice, as a condition of the loan, such municipal bodies from future mortgaging of their assets.

The Bank retains 5% of the face amount of every loan granted by it, subject to the right of the King to regulate or limit this contributory duty, issuing to the borrower an equivalent par value of participation capital shares in the Bank in the form of registered non-negotiable certificates; a maximum of 5% per annum dividend is payable on the participation capital shares, at the discretion of the management.

A sum equal to at least two-thirds of the foundation capital of the Bank, plus its entire reserve fund, must be kept on deposit in banks or invested in interest bearing obligations of the Norwegian Government or guaranteed by the Government.

Security: These bonds are the direct obligation of the Bank, which covenants that if in the future it shall sell, offer for public subscription, or in any manner issue or dispose of any bonds or loan or create any obligation, secured by lien on any revenue or asset of the Bank, the bonds of this issue shall be secured equally and ratably therewith. These \$6,000,000 bonds are the first series issued by the Bank to grant loans as described above, and constitute its total funded debt. The law creating the Bank limits the aggregate amount of the bonds issued by it at any time outstanding to eight times the sum of its foundation capital and that part of its participation capital which exceeds \$1,340,000 (Kr. 5,000,000).

Note: All conversions of kroner into dollars have been made at par of exchange (\$.2680).

Application will be made to list these Bonds on the New York Stock Exchange

Bonds are offered when, as and if issued and received by us, subject to the approval of legal proceedings by our counsel, Messrs. Cotton & Franklin, of New York, and by Norwegian counsel. It is expected that delivery will be made in the form of temporary bonds on or about December 15, 1927.

Price and accrued interest, yielding %

Offering is made on the condition that no statement herein constitutes any representation or guaranty by us; statements made, however, have been accepted by us as accurate.

WHITE, WELD & Co.

14 WALL STREET
NEW YORKKINGDOM OF NORWAY MUNICIPALITIES BANK
SUPPLEMENTARY DATA

National governments, as well as those of provinces and municipalities, are accustomed to engage in various non-governmental activities which are believed to benefit their country or territory as a whole, and which, for various reasons, have not been or cannot be undertaken by private enterprise. In the United States we have the Federal Reserve System with its board at Washington and the twelve regional banks, a central banking organization controlled by the Government, entirely different in conception from the Bank of England, for instance, which is a private institution. Other examples are the United States Shipping Board and Emergency Fleet Corporation, the Hydro-Electric Power Commission of Ontario (supplying current to the smaller municipalities) the Canadian National Railways Company, the Belgian National Railways Company and the German National Railways Company.

Among the functions of this kind which have been extensively developed in foreign countries is the provision of credit facilities for certain large and important elements of the population. Perhaps the foreign examples most familiar here are the Central Bank for Agriculture in Germany, the Mortgage Bank of the Kingdom of Denmark and the National Mortgage Bank of Argentina, but there are scores of similar institutions, especially in Europe.

For the conduct of such non-governmental activities, it is usual for governments to operate through a corporate body, whose capital stock is entirely owned by the government, or which is fully controlled by the government by some other method. Such corporations are, in effect, departments of the government which operates through them. The policies of such corporations are the policies of the government and of the people the government represents; the responsibility of such corporations to the public is the responsibility of the Government; the credit of such corporations is the credit of the government. To the European mind, especially, it is unthinkable that a government should fail to support, financially and otherwise, a corporation which it has created and which it controls and manages.

The Kingdom of Norway Municipalities Bank is a corporation of this general type. In its organization, financial structure and methods of operation, it rather closely parallels the Credit Communal de Belgique. Perhaps the greatest difference between the two is that the Credit Communal was created by the Belgian Government in 1860, whereas the Municipalities Bank is a new institution, established by the Norwegian Government, in the present year. The main purpose in the creation of both institutions, however, was the same, namely, to supply capital to the smaller municipalities, to standardize and stabilize the terms under which these municipalities can borrow capital and to exercise a certain measure of supervision and control over the finances of these municipalities.

The law creating the Municipalities Bank and its ordinances approved by Royal resolution of August 5, 1927, are somewhat less rigid in their limitation of the bank's activities and in their stipulations as to the precise methods by which the bank shall operate, than is the case with the Credit Communal de Belgique. The reason for this probably is that the Credit Communal de Belgique has had two generations of experience in granting

loans to Belgian municipalities and has evolved methods of operation which are particularly suited to Belgian conditions and the requirements of Belgian municipal borrowers; whereas the Municipalities Bank of Norway, engaging in what for the Norwegian Government is a new activity, is given greater latitude by statute, although its operations at every step are under the immediate direction and supervision of the Royal Government.

The purposes in the creation of the Municipalities Bank are stated in the Royal Resolution above referred to as follows (literal translation):

"The Community Bank of Norway shall in its activity contribute to carry through a sound economy of the financial administration of the communities.

"In that respect the bank's management shall in its decisions regarding applications for loans duly take into consideration whether the loans concerned are in accordance with the claims that may be made on a rational conduct of the communal finance management.

"The management shall in its considerations of loan applications follow banking and businesslike principles and prior to its decisions have made clear whether the loan applicant's economic condition offers sufficient security for the bank. In this respect the management shall in connection with the loan application, which is made out according to a form approved by the concerned department, demand that there be laid before the same the material necessary for thorough information about the loan applicant's economy.

"The management shall, as far as possible, try to have the lending activity equally distributed over the entire country."

The new method of supplying capital to Norwegian municipalities is expected greatly to improve the conditions under which they have done their borrowing heretofore. To finance municipal improvements electric light supply and the like, the smaller municipalities have been accustomed to borrow from banks, issuing later small bond loans which have been negotiated locally or, if large enough, placed in the Oslo market. Such borrowings and bond issues, provided they were made in Norway itself, have been subject to little or no supervision or restriction, some of the municipalities have borrowed too heavily, others on terms considered disadvantageous to them. Under the new system municipalities are not compelled to finance through the Municipalities Bank, and the larger cities such as Oslo, Bergen, etc., will probably not do so; but the smaller communities will undoubtedly find that the terms and conditions imposed by the Municipalities Bank will be more favorable to them than they can obtain independently, because of the higher credit which the Bank is expected to enjoy. This has been the development in France, Belgium, Spain, Italy and other countries.

An important feature in the constitution of the Municipalities Bank is the provision of liquid resources. It is stipulated that a sum equal to at least two-thirds of the foundation capital of the Bank, plus its entire reserve fund, must be kept on deposit in banks or invested in obligations of the Norwegian Government or guaranteed by the Government. These resources, according to the law, are to be drawn upon in case of default or delay in payment of obligations due to the Bank from municipalities which have borrowed from it.

Another noteworthy feature is the provision in the law that when the Bank grants loans from funds borrowed by it in foreign currency, it must make such loans in the same foreign currency, and the borrower must pay interest and repay principal in the same currency. This eliminates currency risk, so far as bondholders of the Bank are concerned.

A. W. KIMBER

New York, November 19, 1927.

PERSONAL.

Gov. Strong:

Does this require a personal answer. No mention is made of this letter in letter to Gov. Norman which follows

Bank of England,
London, E.C.2.

15th November, 1927.

My dear Strong,

Since I wrote on the 1st November about Norway, the story has been carried to the end of a chapter. At that time there had already been desultory correspondence on the general question of a Credit and the Norges Bank then wrote to say that this question did not require immediate consideration or solution. Then came the Parliamentary elections which caused some nervousness in Norway and to some extent affected the exchange. Mr. Rygg, however, wrote that in his opinion the nervousness would subside promptly and would not recur; but that as from the 1st instant the Bank Rate was raised.

Therefore it was with some surprise that I received, a few days later, a further letter stating that the idea of a Central Bank Credit had been abandoned and that they had found it necessary to go elsewhere (evidently to private Bankers but I do not know which). Mr. Rygg explained that he could only have dealt with Central Banks on the basis of immediate stabilisation which evidently he was not ready to face: he wished in the meantime to be able to deal effectively with the disturbance of the Norwegian exchange, due, as he put it, to "emotional" causes.

Thus this immediate chapter is at an end. Although it is perhaps not difficult to see his point of view, I

insisted

PERSONAL.

Page 2.

Benjamin Strong, Esq.

15th November, 1927.

insisted in my reply that I believed it to be best in such cases for Central Banks to deal only with one another and I hoped that (on the expiry of his present arrangements) he would return to the original idea.

Yours very sincerely,

W. H. C. Woodman.

Benjamin Strong, Esq.

PERSONAL.

*Mr. Harrison
No reply necessary. Conf. X Just 7 me State*

Bank of England,
London, E.C.2.

15th November, 1927.

My dear Strong,

As to a Loan for the Irish Free State, you realise that here in London it is not a simple problem. The suggestion in your cable of the 4th November (No.129/27) is, of course, perfectly right, but I have an idea that these Irish would sooner get money in HEQQ than in London.

We, here, are always in touch with the Bank of Ireland: ever so long ago I agreed with them to do anything possible to help the Free State Government, either with regard to a Loan or with regard to the Note issue. My feeling has been that whether or not the Free State solution was wise and whether or not its Government is good, it has come to stay and we here should help it all we can. But somehow the Free State Government does not seem free, officially, to do anything but quarrel with us or others in London. Individually we may be the best of friends, but when it comes, e.g., to borrowing money, I do not think they would feel free to make the statements which would be required in a Prospectus here.

Similarly, it is difficult for me to convey to them any suggestions as to where and how their Loan negotiations in New York should be conducted.

Yours most sincerely,

Divoman

Benjamin Strong, Esq.

PERSONAL

Mr. Burgess
Bank of England,
London, E.C. 2.

15th November, 1927.

My dear Strong,

A propos of your letter of the 27th October and in the hope that you will allow me to supply your need, I am sending you the November number of "The Banker", which contains a further article on the Federal Reserve System by Professor Parker Willis. I think that this article will answer your question as to the necessity for writing an antidote: on page 413, paragraph 2, Professor Willis seems to condemn himself out of his own mouth.

As to "The Banker", it is not a paradox to say that it is improving in quality and, as far as I can ascertain, it is increasing in popularity within the radius of its specialised public ^{but carries no weight.} I imagine that it publishes Professor Willis quite disinterestedly, just as it publishes Mlynarski, Caillaux, Snowden, Graham, Pease, &c.

For your entertainment I am sending you a short story entitled "A Gold Mystery", which appeared recently in the Financial News.

Yours most sincerely,

Livingston

Benjamin Strong, Esq.

28
PERSONAL

Bank of England,
London, E.C. 2.

21st November, 1927.

My dear Ben,

I just write a few lines in answer to yours of the 9th instant which arrived this morning and in which you say that, subject to what may happen in Congress, you expect to reach Algeciras on the 11th or 12th January.

I therefore propose to leave London for Gibraltar on the 7th January by the "Otranto", whence I will make my way to Algeciras and await you after your visit to General Munro. If your plans should be altered by anything that may happen next month, I count upon you please to send me a cable without delay. We can leave later plans to be settled once we are at Algeciras: and meanwhile I shall say nothing to any possible visitors whether or not you are already in communication with them; nor shall I make any sort of announcement in the newspapers.

2. You were doubtless informed when Mr. Dewey sailed from New York and you therefore know that he has been in Paris for a few days. To us here there has been some gossip and a good deal of mystery about his movements which at first were wrongly reported and since then do not seem to have been reported at all. He has not been to London and even Kindersley is quite unaware of his plans. But Siepmann happened to be in Paris where he met Mr. Dewey,
who

PERSONAL

Page 2.

Benjamin Strong, Esq.

21st November, 1927.

who left Paris for Warsaw yesterday afternoon along with M. Quesnay of the Bank of France. Mr. Dewey seems to have spent most of his time at the Bank of France, to have seen the official Poles and Poincaré, but none of the Bankers. All of which I assume is in accordance with the understanding he must have reached with Prosser or yourself in New York. I merely pass it on as tittle-tattle, *but privately of course.*

Yours most sincerely,

Livingston

Benjamin Strong, Esq.

Miss Mc Carrick.

This has not been seen by Gov. Strong

PERSONAL.

Bank of England,

London, E.C.2.

22nd November, 1927.

ack. by G. d. H.
Dec. 6/27

My dear Strong,

During the last few days I have received from you several letters, most of which are merely acknowledgments of earlier letters I had written to you. I make an exception in the case of your personal note of the 9th instant as to the probable funding of the Greek Debt to your Government. This is most satisfactory, especially as I guess from your very few words that the negotiations are likely to produce a definite result. Please keep me informed. The issue of the Greek Loan, which has already been authorised by the League, may be discussed early next month at Geneva, and, subject to the above, the only difficulty now standing in the way is an uncertain and very controversial settlement between the Greek and French Governments where there are claims and counter-claims.

Greece

I also make an exception in the case of another letter of yours dated the 9th instant concerning the Bank of Italy; and I may say that when the time arrives to face the question, we here will be willing in principle to join with you in aiding the Bank of Italy towards de jure stabilisation. This refers particularly to your third paragraph and is the outcome of the understanding with the Bank of Italy which I mentioned when writing to you on the 26th of last month.

Italy

Yours most sincerely,

Livingston

Benjamin Strong, Esq.

Miss M. Carrick

This has not been seen by Gov. Strong.

PERSONAL.

Bank of England,
London, E.C. 2.

23rd November, 1927

Governor Strong
Mr. Crane &

My dear Strong,

In continuation of my letter of the 1st instant on the subject of Portugal, I am now able to enclose a copy of a Memorandum which has been prepared for me by Messrs. Lazard Bros. and which will, I think, give you the latest - the very latest - information.

I understand that the Portuguese Government will indeed make formal application to the League at its meeting next month, in which case a scheme might possibly come before the League in March. I fear you will not have time to mention this to Jeremiah Smith, but he will of course be fully informed once he gets to Geneva and I am forwarding letters with this object to Sir Arthur Salter and to Sir Otto Niemeyer.

Yours most sincerely,

Livingston.

Benjamin Strong, Esq.

P O R T U G A L

Messrs.Lazard Brothers & Company Limited have been negotiating for the last six months with the Portuguese Government with regard to the possibility of issuing a large external loan for Portugal in London and other financial centres. Messrs.L.B.& Co. have from the commencement informed the Portuguese Government that in their opinion no such loan was possible or should be made without being accompanied by a comprehensive plan of budgetary reform and currency stabilisation.

For some time the Portuguese Government, being approached from several other quarters, were not prepared to consider a scheme of this character. A few months ago however they approached Messrs.L.B. & Co. again for their co-operation and agreed to the latter sending an expert to make a preliminary investigation into the financial situation. This investigation was carried through by Mr.Binder of Messrs.Binder, Hamlyn & Company, who spent more than a month in Lisbon in preparing his report. The report confirmed Messrs.L.B. & Co. in their view as to the situation, although it did not reveal any difficulties so great that they could not, in their opinion, be dealt with satisfactorily by a comprehensive scheme of reform.

Meanwhile, Messrs.L.B.& Co. had approached the Governor of the Bank of England to know what the Bank's attitude would be with regard to any such scheme. Mr.Norman stated that while he was anxious to do everything he could to help towards a scheme of reform being carried through, the full support and co-operation of the Bank of England could not be counted upon unless the Loan were to come through the usual channels of the League of Nations.

Mr.Brand

Mr.Brand of Messrs.L.B.& Co. paid a further visit to Lisbon again to inform the Portuguese Government of the position. He stated to them that while in the view of Messrs.L.B.& Co. the Portuguese budgetary and currency difficulties might be remedied by a comprehensive scheme, no loan of the amount and character required could, in view of the fluctuating political history of the country in recent years and existing political difficulties, be issued on the international markets without every factor being favourable and in particular without the support of the Central Banks. Messrs.L.B.& Co. could therefore continue their negotiations with the Government only if the latter were prepared to invite the co-operation of the League of Nations.

The Portuguese Government have now decided to take this course and are making an immediate application to the Council of the League to be considered at its forthcoming meeting at the beginning of December. The Government hope that a scheme of reform might be drawn up and agreed to between December and the next meeting of the Council in March, so that an issue could be made in the course of the summer. If the negotiations are successful and a loan is issued, the Portuguese Government have agreed, in consideration of the assistance they have given, to entrust the issue to Messrs.L.B.& Co. and through them to their associates in other financial centres on terms to be mutually agreed. Messrs. L.B.& CO. have invited, so far as New York is concerned, the co-operation of the Guaranty Trust who have expressed their interest in the matter.

It is impossible to say at the moment what would be the size of the loan required, but it would appear as if anything from eight to ten million pounds would be wanted.

PERSONAL

Bank of England,
London, E.C. 2.

26th November, 1927.

My dear Strong,

I think the best way for you to judge the reaction here to the publication of Gilbert's memorandum of the 20th October is to send you some cuttings and this I now do by way of answer to your letter of the 15th November.

The effect of publication here, as perhaps in Germany, was somewhat spoiled by the discussions which had previously taken place in the German press on the assumed contents of the memorandum. But the reception here was very good, even if not very wide: and while few papers could publish so long a memorandum in full, there was general support and practically no criticism. The German Government's reply received little attention and was, I think, nowhere published in full in our newspapers.

[But you must not think that because our newspapers have thus supported Gilbert that all individuals are of the same mind. There is a small but thoughtful and well instructed body who take a different view: they would probably hold that in several of his communications to the German Government, including the last, Gilbert has not been really wise or prudent: because he has meddled with German internal affairs: because he has implicitly (if not explicitly) hinted that excessive foreign borrowing has deliberately endangered future transfers: and
because

PERSONAL

Page 2.

Benjamin Strong, Esq.

26th November, 1927.

because his criticism of the German Government may bring disunion between the creditors and on the Reparation Commission and increase the difficulties of an ultimate or early German settlement.

I do not hold these views: I believe our duty is to support Gilbert through thick and thin whatever he does and I am quite sure he knows better what he ought to do than I do. But it is right that I should mention to you that such views as the above exist contrary to Gilbert's: only someone of much wider knowledge than myself of the whole subject can really judge between the two views.

This, of course, is intended for no eyes or ears but your own.

Yours most sincerely,

Rivoman.

Benjamin Strong, Esq.

Bank of England

28th November, 1927.

With the Governor's
Compliments.

Supplemental to the newspaper booklet sent
on the 26th November, 1927.

ack. by H. d. U.
Dec. 7/27

PERSONAL

Bank of England,
London, E.C.2.

28th November, 1927.

My dear Ben,

Please read this in continuation of the earlier part of my letter of the 21st November.

I am not sure that I shall go by the 'Otranto' on the 7th January: I may go a few days earlier via Toulon and thence by sea to Gibraltar. But anyway, I count definitely on meeting you at Algeciras about the middle of January unless you cable to the contrary within the next week or two.

2. But you have never told me whom you expect definitely to be visitors at Algeciras - see your and my personal letters of 31st August and 10th September. Let me therefore please repeat that if any Central Bankers are likely to be there who do not speak our lingo fluently, it might be wise and would, I think, be very helpful if I were to get Siepmann to come along, at least for part of the time that we are at Algeciras. I shall not do or say anything about this until you cable me.

3. From a totally different angle I have another suggestion to make regarding Algeciras.

Perhaps the chief uncertainty or danger which confronts Central Bankers on this side of the Atlantic

over

PERSONAL

Page 2.

Benjamin Strong, Esq.

28th November, 1927.

over the next half dozen years is the purchasing power of gold and the general price level. If not an immediate, it is a very serious question and has been too little considered up to the present. Cassel, as you will remember, has held up his warning finger on many occasions against the dangers of a continuing fall in the price level and the Conference at Genoa, you will also remember, suggested that the danger could be met, or prevented, by a more general use of the 'Gold Exchange Standard'.

This is a very abstruse and complicated problem which personally I do not pretend to understand, the more so as it is based largely on somewhat uncertain statistics. But I rely for information from the outside about such a subject as this not, as you might suppose, on McKenna or Keynes, but on Sir Henry Strakosch. I am not sure if you know him: Austrian origin: many years in Johannesburg: 20 years in this country: a student of economics: a gold producer with general financial interests: perhaps the main stay in setting up the South African Reserve Bank: a member of the Financial Committee of the League and of the Indian Currency Commission: full of public spirit, genial and helpful... and so forth. I have probably told you that if I had been a Dictator he would have been a Director here years ago.

This

PERSONAL

Page 3.

Benjamin Strong, Esq.

28th November, 1927.

This is a problem to which Strakosch has given much study and it alarms him. He would say that none of us are paying sufficient attention to the possibility of a future fall in prices or are taking precautions to prepare any remedy such as was suggested at Genoa, namely smaller gold reserves through the Gold Exchange Standard, and that you, in the long run, will feel any trouble just as much as the rest of the Central Bankers will feel it.

My suggestion therefore is that it might be helpful if I could persuade Strakosch too to come to Algeciras for a week: his visit could be quite casual and you would not be committed to any intrigues with him. So far I have not said a word about this to Strakosch or to anyone else and I shall not do so until you cable that you agree to this: so it follows that I am quite uncertain whether he could come at all.

When your plans are clear, you must please send a word by cable on (1), (2) and (3); and also (4) overpage.

Yours very sincerely,

Livingston

P.S. (4). And

Benjamin Strong, Esq.

PERSONAL.

Page 4.

Benjamin Strong, Esq.

28th November, 1927.

P.S. 4. . And while I am at it, I must add another suggestion, viz., that it might be helpful if Dr.Stewart, too, were to come to Algeciras on his way to London. We intend, do we not, that, generally speaking, in the future he shall be an ally? I would not like Dr.Stewart to arrive in London while I were away and therefore (assuming you have not many other visitors) I would be glad if you cared to ask Dr.Stewart to accompany you to Algeciras, whence he could make his way to London with me. I shall be writing to him in a day or two just to say that we shall be ready whenever he can turn up at or after the New Year.

W.S.

ENGLAND

FOR THE GOVERNOR.

Copy for B.S.

also answer to para i.

1. Dr. Bachmann hopes that the meeting between Governors of Central Banks early next year will not be (as M. Moreau suggested) a series of individual meetings in isolation but a regular Conference. He feels that he and Dr. Vissering - and, if necessary, M. Franck - have common interests, as smaller Central Banks, in this matter, and he proposes to consult with the Dutch beforehand.
2. The Swiss have no particular fear of a scarcity of gold, but Dr. Bachmann is anxious that the general questions connected with gold should come up for discussion when the Governors meet, more especially as Switzerland is in an exceptional position. The dissolution of the Latin Union has thrown the Swiss back upon a Law of 1850 which is clearly unworkable. There will have to be, before long, a new currency Law; and it is important that this Law should represent one step in a considered plan. The suspension of the pre-war currency system is authorised by law only in the case of war and its consequent disturbances. It is becoming a little late in the day to plead this excuse in explanation of the anomalous state of affairs which prevails at present. And, in the meantime the National Bank is exposed to the pressure of private banks (who desire a return to gold circulation) and of other influences which it may not be possible to withstand much longer. When the time comes for a definitive settlement - and the time may come any day - the National Bank wishes to be ready with a considered solution, reached in consultation with other Central Banks.
3. The reply to our letter has been delayed because gold concerns Berne, not Zurich. The reply is now ready,

but

but has not yet been translated from the German.
Dr. Bachmann would find it easier to correspond in
German and I told him that if he cared to send letters
to me in German they would reach the Governor equally
well.

8th December, 1927.

H.A.S. [Lufmann]