

After you see the picture Helen is bringing you will believe I was an ugly little girl.

ALS (WP, DLC).

¹ Elinor Macartney Lane, *Nancy Stair: A Novel* (New York, 1904).

From Robert Lansing

PERSONAL

My Dear Mr. President: Washington September 6, 1915.

Doubtless Secretary McAdoo has discussed with you the necessity of floating government loans for the belligerent nations, which are purchasing such great quantities of goods in this country, in order to avoid a serious financial situation which will not only affect them but this country as well.

Briefly the situation, as I understand it, is this: Since December 1st, 1914, to June 30, 1915, our exports have exceeded our imports by nearly a billion dollars, and it is estimated that the excess will be from July 1st to December 31, 1915, a billion and three quarters. Thus for the year 1915 the excess will be approximately two and half billions of dollars.

It is estimated that the European banks have about three and half billions of dollars in gold in their vaults. To withdraw any considerable amount would disastrously affect the credit of the European nations, and the consequence would be a general state of bankruptcy.

If the European countries cannot find means to pay for the excess of goods sold to them over those purchased from them, they will have to stop buying and our present export trade will shrink proportionately. The result would be restriction of outputs, industrial depression, idle capital and idle labor, numerous failures, financial demoralization, and general unrest and suffering among the laboring classes.

Probably a billion and three quarters of the excess of European purchases can be taken care of by the sale of American securities held in Europe and by the transfer of trade balances of oriental countries, but that will leave three quarters of a billion to be met in some other way. Furthermore, even if that is arranged, we will have to face a more serious situation in January, 1916, as the American securities held abroad will have been exhausted.

I believe that Secretary McAdoo is convinced and I agree with him that there is only one means of avoiding this situation which would so seriously affect economic conditions in this country, and that is the flotation of large bond issues by the belligerent

governments. Our financial institutions have the money to loan and wish to do so. On account of the great balance of trade in our favor the proceeds of these loans would be expended here. The result would be a maintenance of the credit of the borrowing nations based on their gold reserve, a continuance of our commerce at its present volume and industrial activity with the consequent employment of capital and labor and national prosperity.

The difficulty is—and this is what Secretary McAdoo came to see me about—that the Government early in the war announced that it considered “war loans” to be contrary to “the true spirit of neutrality.” A declaration to this effect was given to the press about August 15, 1914, by Secretary Bryan. The language is as follows: “In the judgment of this Government loans by American bankers to any foreign nation at war is inconsistent with the true spirit of neutrality.”

In October, 1914, after a conference with you, I gave my “impressions” to certain New York bankers in reference to “credit loans,” but the general statement remained unaffected. In drafting the letter of January 20, 1915, to Senator Stone I sought to leave out a broad statement and to explain merely the reasons for distinguishing between “general loans” and “credit loans.” However, Mr. Bryan thought it well to repeat the August declaration and it appears in the first sentence of division 13 of the letter, a copy of which I enclose.

On March 31, 1915, another press statement was given out from the Department which reads as follows:

“The State Department has from time to time received information directly or indirectly to the effect that belligerent nations had arranged with Banks in the United States for credits in various sums. While loans to belligerents have been disapproved, this Government has not felt that it was justified in interposing objection to the credit arrangements which have been brought to its attention. It has neither approved these nor disapproved—it has simply taken no action in the premises and expressed no opinion.”

Manifestly the Government has committed itself to the policy of discouraging general loans to belligerent governments. The practical reasons for the policy at the time we adopted it were sound, but basing it on the ground that loans are “inconsistent with the true spirit of neutrality” is now a source of embarrassment. This latter ground is as strong today as it was a year ago, while the practical reasons for discouraging loans have largely disappeared. We have more money than we can use. Popular

sympathy has become crystallized in favor of one or another of the belligerents to such an extent that the purchase of bonds would in no way increase the bitterness of partisanship or cause a possibly serious situation.

Now, on the other hand, we are face to face with what appears to be a critical economic situation, which can only be relieved apparently by the investment of American capital in foreign loans to be used in liquidating the enormous balance of trade in favor of the United States.

Can we afford to let a declaration as to our conception of "the true spirit of neutrality" made in the first days of the war stand in the way of our national interests which seem to be seriously threatened?

If we cannot afford to do this, how are we to explain away the declaration and maintain a semblance of consistency?

My opinion is that we ought to allow the loans to be made for our own good, and I have been seeking some means of harmonizing our policy, so unconditionally announced, with the flotation of general loans. As yet I have found no solution to the problem.

Secretary McAdoo considers that the situation is becoming acute and that something should be done at once to avoid the disastrous results which will follow a continuance of the present policy.

Faithfully yours, Robert Lansing.

TLS (SDR, RG 59, 811.51/2624a, DNA).

To Edith Bolling Galt

[The White House]

Monday, 9.15 A.M. 6 Sept., 1915

Well, my precious Darling, the great "triumph" did not last long, did it? Apparently nothing can last long which depends on Germany's good faith. Of course we do not know all the facts yet, and it is *possible* that the facts, when fully disclosed, will put a different face on the sinking of the *Hesperian*,¹ but it seems to me a very slim possibility. And of course my first thoughts turn to you, my blessed Sweetheart, by means of whose love I am able to face *anything* with a steady heart. I need you more every day of my life, and every day you give more and prove yourself the royal partner I knew you would be. Since Saturday night my heart has been singularly at peace. I have had two of the finest, sweetest night's rest I have had in a long time—because all the while *conscious* of your loving thought hovering near me. Even last night, after hearing the first rumours of the *Hesperian*, I