

Paris, 1 February 1923.
18 rue de Tilsitt.

Memorandum for Mr. Logan:-

I have just read Mr. Strong's comment of November 2 last on the memorandum which I had prepared on the Russian situation. I quite agree with Mr. Strong that any development under what he calls the "automatic plan" must almost inevitably mean the facilitating of German penetration into Russia. My own opinion is that such penetration is highly desirable chiefly for two reasons:

First. The Germans, as the result of long experience in Russia, are in a better position to play the direct and active role in Russian reconstruction; they know the country and the people, and have long established, though at present interrupted, connections there more fully developed than those of any other peoples of Europe or America; and

Second. German industrial penetration backed, as I presume there is no doubt it would have to be, by American and British credit would furnish an outlet for the products of German industry in a direction in which they ~~do~~^{will} not compete with already established markets of the Allied and Associated Powers. Such a development might easily go a long way toward putting Germany into position to pay reparations, while at the same time inflicting a minimum of injury on the export industries of America or Europe.

Lincoln H. Stearns

JAMES A. LOGAN JR.

Paris, 2 February 1923.
18 rue de Tilsitt.

Personal and Confidential.

My dear Ben:-

We enclose Annex 1731 A, B, and C, of the Reparation Commission concerning the work of the League of Nations as regards the revival of Austria and the results obtained to date. B and C reports are, respectively, "The General Austrian Situation At The Beginning of January" and "Remarks On Austrian Paper Currency", prepared by M. Pierre Quesnay, a French economist who until recently has been the Assistant Chief of the Intelligence Service of the Reparation Commission.

Special attention is invited to that portion of the covering letter (Annex 1731 A) of M. Maurice Frere, Chief of the Intelligence Service, to the Secretariat General of the Reparation Commission, as follows:

"I believe that the knowledge of these preliminary results in regard to Austria may be of great use in the examination of the measures adopted with a view to the revival of Germany and to the improvement of her financial situation."

As concerns Austria, the immediate question is whether the Ruhr episode is not going to make impossible the raising of the money which all had evidently felt quite sure of raising before the entry into the Ruhr. It will particularly make it more hard for them to get any part of it in the United States. We understand that the plan is dependent on very considerable American financial support, and that past negotiations with American banks had indicated a willingness on the part of the latter to support the plan. It is worth while to report that the parties concerned seemed to feel sure that the loan is safe under any and all circumstances. It is understood that the final and conclusive negotiations are to be carried on in London the week beginning February 5 with the Bank of England and the British Treasury. In our judgment, if the Bank of England gives its approval and in turn the London banks effectively support the plan, and if there is any willingness of our home banks to take part our Government ought not to be afraid to let them do it, though probably not offering any positive encouragement.

The operation of the plan in Austria to date, as shown in the attached reports, places particular emphasis on the effect of the substitution of hope for despair in governmental finance. When you think of what Austria is and what it has gone through, when you consider how inert and passive

it has always seemed and when, in spite of this, you see vigorous political and economic action develop rapidly under the stimulus of a bit of hope, you get an idea of what a difference hope would have made earlier and might even now make on Germany's attitude towards the payment of reparations and her power of payment, and realize that the economists are right in making the fundamental factor in Germany's restoration and in the reparation problem the restoration of Germany's confidence in itself and the outside World's confidence in Germany. From this latter aspect the Austrian operation deserves particular attention.

Faithfully yours,

J. A. L. Jr.

*You may, perhaps, draw from the text
of this letter that it is a quotation
from a report. However it is intentional,
J. A. L. Jr.*

JAL/AJG

Encls.

The Honorable Benjamin Strong,
Governor, Federal Reserve Bank of New York,
New York City.

JAMES A. LOGAN JR.

Paris, 18 rue de Tilsitt
2 February 1923.

Personal

My dear Ben,

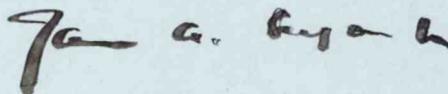
On November 2nd you wrote me a letter containing certain comments on Dr. Hutchinson's memorandum on the Russian situation which I had sent you. I have not been able to reply before as I could not get hold of Dr. Hutchinson. However he has just returned and gives me the enclosed specific replies to your questions. I personally am inclined to agree with Hutchinson as I have never been one of those who fear Germany's penetration into Russia. In my judgment the more trade that can be encouraged even between ex-enemy Powers and Russia, the better it is for the whole economy of the world and incidentally for America.

I enclose copy of an article which Dr. Hutchinson has prepared for publication on the Russian situation which I find most interesting. It has not yet been published but Hutchinson has authorized me to send you a copy.

Dr. Hutchinson is leaving Paris within the next few days to make a further economic study of about six months in Russia for Hoover. When he comes out I will see that you get a copy of his report.

For certain reasons which have probably occurred to you, I have not been mailing you my weekly letter the last few weeks. However they have all been prepared and I will send them along by the first safe messenger.

Faithfully yours,



JAL/BD
2 encls.

The Honorable Benjamin Strong,
Governor, Federal Reserve Bank
of New York, New York City.

COPY OF AN OPINION BY MR. FISCHER WILLIAMS, K.C.
BRITISH REPRESENTATIVE ON LEGAL SERVICE OF THE
REPARATION COMMISSION CONCERNING THE INTERPRETA-
TION OF PARAGRAPHS 17 and 18, ANNEX II, PART
VIII OF VERSAILLES TREATY.

Feb. 2nd, 1923.

TREATY OF VERSAILLES

PART VIII, ANNEX II, PARAGRAPHS 17 & 18.

Para. 17. In case of default by Germany in the performance of any obligation under this Part of the present Treaty, the Commission will forthwith give notice of such default to each of the interested Powers and may make such recommendations as to the action to be taken in consequence of such default as it may think necessary.

Para. 18. The Measures which the Allied and Associated Powers shall have the right to take, in case of voluntary default by Germany, and which Germany agrees not to regard as acts of war, may include economic and financial prohibitions and reprisals and in general such other measures as the respective Governments may determine to be necessary in the circumstances.

The exact meaning of these passages of the Treaty has now become a matter of international importance. It may therefore be useful to attempt a solution.

The French official thesis is to the effect that once the Commission, acting under Paragraph 17 of Annex II, has given notice to "each of the interested Powers" of voluntary default^X on the part of Germany it is open to each of the Allied Governments notified to take such measures as, acting in the plenitude of its own sovereignty, it may determine to be necessary, of whatever character these measures may be and even if they involve an invasion and occupation either of the Ruhr or of any other part of Germany. Action has now (February 1923) been taken on this thesis, the effects of which will be matter for history.

In my opinion, the French official view is unsound. The true meaning of the Treaty, as of any other document, can of course only be ascertained when it is considered as a whole. There is no

X. The Commission has decided (26.XII.1923) that the word "default" in paragraph 17 has the same meaning as "voluntary default" in paragraph 18.

more fruitful source of misinterpretation than the tendency to neglect this rule and to take one or two passages or even words from a lengthy document and give them their prima facie meaning without regard to their general context. Thus, in this case, the French official interpretation has seized on the words "respective Governments" (Gouvernements respectifs) and on a point of cardinal importance makes them bear the weight of a decision which has a vital effect upon the character of the Treaty as a whole, and has determined events of European or world wide importance.

In my opinion the suggestion of individual, independent and uncontrolled judgment and action by each Allied Power, which these two words taken by themselves might seem to involve, is inconsistent with the general purpose of the Treaty as a whole and even with the immediate text in which the words occur.

What, in relation to reparations, is the general purpose and nature of the Treaty? The Treaty is a contract between Germany on the one hand, and the Allied and Associated Powers (five of whom have the special name of 'Principal' Allied and Associated Powers) on the other. It is not, except in so far as may be specially expressed, e.g. in Part I of the Treaty (Covenant of the League of Nations), a contract between the separate Allied and Associated Powers inter se. Part VIII of the Treaty establishes a reparation debt owing by Germany to the Allied and Associated Powers jointly; Article 232 requires a joint compensation for damage done to the civilian population of the Allied and Associated Powers and their property as a whole, and Article 233 provides that the amount (not "amounts") of the above damage is to be determined and dealt with by a joint inter-allied organ known as the Reparation Commission which is the exclusive agency of all the Allied and Associated Governments interested in reparation (see Annex II para. 3 and 12). The division of this joint

debt is no concern of Germany but is settled by the Allied and Associated Powers themselves (Article 237).

The Treaty thus does not give rise to a series of separate debts owing by Germany to each Allied Power. In strictness Germany owes nothing to the British Empire, France or Serbia. What she owes is a joint debt to all the Allied Powers whose claims to reparation have been admitted by the Reparation Commission, and to the Reparation Commission as their common agent. To take an analogy of municipal law, if any one Power entitled to reparation tried to bring an action alone against Germany, proceedings would have to be stayed until in some form or other the rest of the Powers entitled to reparation had been made parties.

The reparation debt is in fact very like a debt owing to a partnership: the German obligation is to the partnership. There is no question of separate debts owing by Germany to separate partners. If therefore any question arises as to the manner in which execution is to be levied on the property of the debtor one would not expect to find that each partner has an individual uncontrolled right to do what he pleases in the matter - even to the length of driving the debtor into bankruptcy, and permanently occupying the engine house of his works. And on the true construction of the Treaty, where allowance is made for the characteristics which distinguish an independent Power - a persona of international law - from an ordinary individual - a persona of municipal law - this expectation is fulfilled.

To pursue the analogy of a partnership; could any one partner, acting by himself against the will of the others, charge the partnership property with the costs of his independent proceedings? Clearly not. And still less could he get those costs out of the property of the debtor mortgaged for the joint debt, in priority to the joint debt. And yet we know, from what happened with regard to the costs of the French Army which went to Frankfort, that a claim of this kind is to be expected from the French when they take independent action. It is indeed well settled in English law (and I suspect that continental law is to the same effect) that if it is sought to enforce a joint claim all the parties interested must in one form or another be before the Court; otherwise it is impossible that justice should be done.

Again, as the debt owing by Germany is a joint debt the object of any individual action must be to recover this joint debt and therefore any sums recovered would be held in trust for the creditors as a whole. It is, to say the least of it, anomalous that it should be in the power of any one of the joint creditors, without authority to constitute himself the agent of the whole body of creditors, to deal in the way which he, not they, think best with the property of the debtor which, on the French construction of Article 243 of the Treaty, has been mortgaged as a security for the common debt, or, on the construction which I personally prefer, is applicable to the payment of that debt in priority to other claims of a similar nature.

Bearing in mind these general considerations and the presumptions to which they give rise, let us proceed to a closer examination of the language of para. 18 of Annex II.

There are in reality two points, and not one only, at issue as to the interpretation of this paragraph - points distinct, though not without a bearing on each other. One point is that already indicated, namely, whether each individual Government has a right to independent action, and the other point is, what is the sphere of such independent judgment and action? Does it extend to all conceivable measures such, for example, as armed invasion, or is it limited by the *ejusdem generis* rule to measures similar to those specially mentioned in the Article, namely, "economic and financial prohibitions and reprisals"? It will be convenient to take this latter point first.

The *ejusdem generis* rule is one which, as I gather from conversations with my colleagues, applies in continental as well as in English law (see for the English rule the judgment of Mr. Justice McCardie in the case of the *S.S. Magnhild v McIntyre* etc. 36 *Time Law Reports*, pages 744 and 746, quoting Lord Halsbury) and is to the effect that where specific words which fall within a certain genus precede general words those general words must be limited to that genus. Now here the words "economic and financial" in themselves suggest a genus. And if this be thought not enough, it may be suggested that a genus which includes "economic and financial prohibitions and reprisals" is to be found in that class of "forcible measures short of war" which are dealt with by Westlake in the first chapter of Part II of his *International Law (War)*, the main species of which, according to Westlake, are reprisals, embargo and pacific blockade.

Against the argument that the words "such other measures" may include the military occupation of territory another part

of.....

the Treaty - Part XIV - "Guarantees" supplies a conclusive argument. Article 428 provides -

"As a guarantee for the execution of the present Treaty by Germany, the German territory situated to the west of the Rhine, together with the bridgeheads, will be occupied by Allied and Associated troops for a period of fifteen years from the coming into force of the present Treaty".

This is followed by Article 429 which provides for the successive restriction of the occupation "if the conditions of the present Treaty are faithfully carried out by Germany", and then comes what is perhaps the Article that the for present purpose is decisive - Article 430 -

"In case either during the occupation or after the expiration of the fifteen years referred to above the Reparation Commission finds that Germany refuses to observe the whole or part of her obligations under the present Treaty with regard to reparation, the whole or part of the areas specified in Article 429 will be re-occupied immediately by the Allied and Associated forces."

This language indicates quite clearly that the military occupation provided for in this part of the Treaty is intended to enforce the reparation obligations of Germany and further establishes that this military occupation is limited to the whole or part of the areas which are defined by the Treaty, that is to say, German territory on the left bank of the Rhine together with certain bridgeheads. We have thus the subject of military occupation dealt with in a special part of the Treaty; on well recognised principles of construction, these special provisions dealing with a specific subject prevent the extension to that subject of general words which are found in another part of the instrument. The carefully guarded language of Article 430 would have no meaning if it were possible for any one Power on its own initiative, acting under a wholly different part of the Treaty, to occupy whatever part of German territory it might think fit.

It may perhaps be added that this restricted interpretation of paragraph 18 has the merit of not making nonsense of the agreement of Germany not to regard these measures as acts of war - an undertaking which is intelligible if the measures in question are of ambiguous character. ^{.x.} (i.e., such that an independent State might or might not make of them a *casus belli*) but not if they amount to actual measures of hostility such as the invasion of territory. ^{.xx.} In other words it is intelligible that a person should agree that he will treat what is gray as equivalent to white, but it is against all common sense to interpret an ambiguous document as meaning that what every ordinary man would call black is, for the purposes of that instrument, to be regarded as of the opposite colour.

The results of the contrary construction are indeed so alarming that in themselves they raise a strong presumption against its accuracy. If we accept the French doctrine of separate and uncontrolled action, limited to no general class in the nature of reprisals, it follows that an instrument containing special and carefully limited provisions for military measures against Germany authorises not France only but each and every Allied or Associated Power to do whatever in its own eyes seems good.

^{.x.} If the question were whether in a crabbled manuscript a word meant "ass" or "mule" would not a provision that the animal was "not to be regarded as" an ass, be a strong argument that the uncertain word was "mule"?

^{.xx.} It is true that some authors (e.g. Oppenheim, *International Law*, Vol. II, War, page 48) treat the occupation of a port - as for example the occupation of the Nicaraguan port of Corinto by Great Britain in 1895 - as a measure of reprisal falling short of war, but there appears to be no case in which a measure of this kind has been allowed to have a peaceful character as between Powers of equal authority and civilisation.

c.f. Pitt Cobett, *Leading Cases in International Law*, 4th Edition, Fence, page 361, where speaking of Pacific Blockade he says that "it may be treated as an act of war by the States on which it is imposed".

Czecho-Slovakia - if the report of the Commission under paragraph 17 were made to her - could invade that part of Upper Silesia which is still left to Germany, in spite of the protests of the other Allies; Belgium, acting independently, could march as far into Germany as she chose, and the British Government would be entitled to seize Bremen and Hamburg and perhaps detach a couple of battalions to march to Berlin. And all the time any German active resistance would be an act of German aggression. The Treaty would thus authorise general anarchy and chaos, and an instrument intended to promote as far as possible international co-operation would give the rein to any and every form of Chauvinist exaggeration which national passion might inspire. ^{.X.} Indeed, if regard be had to the surrounding clauses of Part VIII, to the special provisions of Part XIV and to the whole scope and purpose of the Treaty, to construe the words in dispute as suddenly authorising independent and uncontrolled military action by each separate Government would be almost as shocking as to construe ambiguous words occurring in a marriage settlement as containing a reference to divorce.

/X. The leading article of the "Temps" of November 23rd 1922 went so far as to make this suggestion. It said -

"If the German Government does not produce an acceptable programme the Allied Powers will have nothing to do but to help themselves to payment, each for its own part, and France in order to meet the reparations due to her, will have to turn to account the German riches which are under her hand or within the reach of her hand".

("Si le gouvernement allemand n'apporte aucun programme acceptable, les allies n'auront qu'a se faire payer eux-memes, chacun en ce qui le concerne. Et la France devra exploiter, pour subvenir aux reparations qui lui sont dues, les richesses allemandes qui sont sous sa main or a portee de sa main").

The consideration of the point as to the *ejusdem generis* rule and of the general scope of the Treaty goes far to deprive of great practical importance the answer to be given to the other point raised as to the construction of paragraph 18 - namely how far each individual Government has a right to independent action. If the sphere of the paragraph is restrained to reprisals, economic and financial prohibitions and other measures *ejusdem generis*, it is not unreasonable that in the last resort within this sphere each Government may decide as to its own action, or at any rate may refuse to join in action of which it does not approve though the fact that the Reparation Commission is authorized to make to the "interested Powers" a single recommendation as to the action to be taken points at any rate to a general assumption that the action to be taken by the co-owners of a joint debt ought in principle to be joint action approved by all. Down to the critical passage in paragraph 18 neither the Treaty proper nor Annex II has given any hint of anything like separate action by individual Powers, and it is in fact almost casually and in a subordinate sentence ("such other measures as the "respective Governments may determine to be necessary") that paragraph 18 uses the phrase "respective Governments" on which the French argument lays stress.

It certainly is startling to be told that this casual use in a dependent sentence of a single phrase is to upset what would appear to be the general scheme of the Treaty, and it is the more strange when it is remembered that the clause itself is found not in the Treaty proper but in an annex, the purpose of which is (see Article 233) to define the constitution and powers of the Reparation Commission. Now the right to take separate action against Germany by individual Powers is in no

some part of the constitution or powers of the Commission itself; no doubt, if the language were clear, positive and unambiguous, and occurred in the main part of a sentence, the fact that such a sentence was found in Annex II would not be a reason for not giving it what would then be its plain meaning, but when ambiguous words are used thus casually in a dependent sentence and in a place where the reader of the Treaty has already been told not to expect to find anything except the constitution and powers of the Reparation Commission there is surely a strong presumption against the violent and unexpected introduction of a power which on the French construction would go to the root of international relations and of the scheme of the Treaty.

It is however perhaps unnecessary to elaborate further the answer to the point as to the meaning of "the respective Governments"; once it is clear that the military occupation of territory is outside the scope of paragraph 18, the reference to the "respective Governments" becomes comparatively intelligible. The measures of economic reprisal, embargo, etc., which are within the scope of this paragraph, are ordinarily measures which a Government takes within its own jurisdiction and in exercise of its own laws. As to measures such as these it is quite natural and reasonable that each Government, within the limits of a joint decision to take measures of this class, should have an absolute right to settle what it will do and how it will do it; on these lines we reach a reasonable interpretation of paragraph 18, an interpretation consistent with the Treaty as a whole and with general doctrines of law both

municipal and international, and not leading to the astonishing conclusions which the French official thesis involves. ^{X.}

Throughout this note it has been assumed that the object of paragraph 18 of Annex II is to secure payment of the reparation debt and not to punish Germany, as an act of vengeance or with a view to her moral reformation, for her failure to pay. We are dealing in fact with the levy of execution for a judgment debt and not with the infliction of chastisement for a crime.

J. E. W.

X. By what may be only a curious accident, language not unlike that of Annex II 18 is to be found in another document of international significance, namely, one of the resolutions of the British Imperial War Conference which sat in London in 1917. The resolution, to quote only the relevant portions, ran as follows:-

"the Imperial War Conference.....deem it their duty to place on record their view that any readjustment (of the constitutional relations of the component parts of the Empire,) while thoroughly preserving all existing powers of self-government and complete control of domestic affairs, should be based upon a full recognition of the Dominions as autonomous nations of an Imperial Commonwealth..... and should provide effective arrangements for continuous consultation in all important matters of common imperial concern and for such necessary concerted action founded on consultation as the general governments may determine" (Minutes of proceedings of the Imperial War Conference 1917, Resolution X, Howells British Empire and World Peace, page 171).

What is here provided for is concerted action based upon the decision of separate independent governments; no separate government is to be forced into action which it does not approve, but the general conception is that the action taken is concerted action pursued in common by at any rate the majority of the governments concerned.

2.2.23.

ADDITIONAL NOTE

AS TO THE POSITIONS TAKEN BY THE
BRITISH AND FRENCH GOVERNMENTS AS
TO THE MEANING OF THESE ARTICLES.

In the autumn of 1920 the British Government made a declaration that it did not intend to exercise the rights which were conferred upon it by paragraph 18 of Annex II by seizing the property of German nationals in British territory. (This example has since been followed by Belgium and other Allied Powers). This action produced lively remonstrance from the French Government to the effect that it was not open to any Power to take separate action under this paragraph, and the distinguished French jurist, the late M. Edouard Clunet, published a most interesting article in the "Revue" on the 4th November 1920 supporting what was then the French official view, which, it is needless to say, has now been entirely reversed.

On the 24th May 1922 Mr. Chamberlain, in answer to a question in the House of Commons, declared on behalf of the British Government that paragraph 18 was understood as conferring upon the individual Govern-

X. This really involved taking the most extreme view conceivable of the meaning of the disputed paragraph. If Great Britain was wrong in saying that she would not take a particular form of action it seems to follow that she would have been bound to take that action had the Allied Powers decided by a majority that this particular action ought to be taken; in other words a majority of the Allies, or at any rate of the Principal Allies, could have dictated an important step in British Foreign policy.

When I reflect that Para. 18 was drafted by an American hand and that the United States were then conceived of as parties bound by the Treaty, I cannot free my mind from what is perhaps a prejudice against such a construction. Surely on this point it is reasonable to say that the word "respective" must have been intended to safeguard the right of any Government to decline to take the action recommended by the Commission or judged advisable by a majority of the Allies.

ments the right to take action independently, but the action taken must be of the nature contemplated by the paragraph, viz, economic and financial prohibitions and reprisals, and in general such measures as it is proper for Governments to take individually.

I think that I have seen references in the French press to this reply of Mr. Chamberlain in which he is represented as having accepted what is now the French official view of the meaning of the paragraph. It is obvious that no such interpretation can be put on Mr. Chamberlain's language.

J. F. W.

2.2.33.

CONSTRUCTION OF ANNEX II, PARAGRAPHS 17 & 18
OF THE TREATY OF VERSAILLES.

(Former Opinion of Monsieur Cluzet from "Le
Temps" of 4th November 1920.)

De la renonciation a telle des clauses generales du
Traite de Versailles par l'une des Puissances signataires.

Une legere divergence de vues d'ordre international, qui trouvera un prompt apaisement, vient de se produire entre les deux nations, etroitement amies et allies, l'Angleterre et la France, a propos du Traite de Versailles. L'Angleterre aurait decide de renoncer au benefice de l'une des clauses generales du Traite qui permet eventuellement, aux Puissances allies, de prendre contre l'Allemagne, defaillant a ses engagements, certaines "repressailles economiques". Cette decision toutefois n'emancerait point du gouvernement britannique lui-meme, mais serait due a l'exces de zele de quelques fonctionnaires du Board of Trade; et l'Angleterre reste mantie de ses droits.

Quoi qu'il en soit, l'incident soulève une question dont l'examen purement juridique peut fournir une solution aisee - et qui depasse, au surplus, l'interet de l'espece.

La partie VIII du Traite de Versailles avec l'Allemagne, entre en vigueur le 10 Janvier 1920, est intitulee "Reparations" et contient 14 articles (art. 231-244); elle est enrichie de sept Annexes. Le par. 18 de l'Annexe II est ainsi conçu:

"Les mesures que les Puissances allies et associees auront le droit de prendre, en cas de manquement volontaire par l'Allemagne, et que l'Allemagne s'engage a ne pas considerer comme des actes d'hostilites, peuvent comprendre des actes de prohibitions et de repressailles economiques et financieres et, en general, telles autres mesures que les Gouvernements respectifs pourront estimer necessaires par les circonstances."

II.....

Il s'agit la d'une clause "comminatoire" destinee a fortifier la resistance du debiteur - s'appelat-il l'Allemagne - contre les tentations de Mephisto, toujours pret a lui suggerer la derobade a ses engagements.

Mais quelle est la nature du contrat dont releve cette clause? Quelles obligations respectives engendre-t-elle, specialement dans les rapports interieurs des Parties qui en ont voulu l'insertion?

Pour ramener le Traite de Versailles a sa formule juridique, on constatera d'abord qu'il s'agit d'un contrat synallagmatique conclu entre deux Parties seulement; d'une part, l'Entente, creanciere d'obligations et d'argent, et d'autre part une debitrice, l'Allemagne. C'est en deux "parts" en effet que le preambule du Traite distribue les Parties en presence.

La premiere "part", creancier, est une collectivite aux entites distinctes, et composee de 27 Etats independants. Comme leurs interets sont confondus, ils ne comptent que pour une unite. Selon le droit commun ces creanciers sont des correi stipulandi en possession d'une obligation conjoints ou solidaire. La subtile distinction entre la "conjonction" et la "solidarite", qui a ses consequences pratiques en droit civil (1), est une recherche delicate dont on est, ici, heureusement affranchi. Dans l'un et l'autre cas, les droits et devoirs des co-creanciers entre eux sont enseignes d'excellente facon, par le droit anglais:

"Lorsqu'une promesse a ete faite...a plusieurs personnes conjointement, chacun des creanciers ne peut pas rechercher separement le debiteur pour sa part dans la creance commune. L'action ne peut etre intentee que par l'ensemble des creanciers et pour la dette tout entiere, sauf convention contraire ou a moins que leurs interets respectifs ne soient absolument distincts." (2)

Dans un contrat - pour le moins - "conjoint", comme le Traite de Versailles, les stipulants, fondus en une meme personne juridique, ne peuvent donc agir isolement pour modifier ou denoncer tout ou partie

du...

du pacte commun. Ils ne peuvent le faire que d'accord avec leurs co-interesses.

En dehors des principes, l'esprit, comme le texte du Traite de Versailles, ne peuvent conduire a une autre interpretation.

Le Traite contient en effet deux sortes de clauses. Les unes concernent plus particulierement les Etats qui en sont l'objet direct;

Ainsi en est-il dans la partie III - par exemple pour la Belgique (art. 31-39), pour le Luxembourg (art. 40-41), pour la Tcheco-Slovaquie (Art. 81-86), pour la Pologne (art. 87-93), pour la Ville libre de Dantzig (art. 100-108), etc.

D'autres clauses au contraire n'ont qu'une portee generale et ne sont ecrites que dans l'interet collectif des stipulants de "premiere part", c'est-a-dire des 27 Etats "constituant les puissances allies ou associees".

C'est le cas notamment de la Partie VII du Traite, "Sanctions", de la partie VIII, presentement en cause. Cette derniere partie, intitulee "Reparations", contient, comme on sait, les articles 231-247, adornees de sept Annexes. Elle est divisee en deux sections (Dispositions generales, Dispositions particulieres). Le par. 18 de l'Annexe II, auquel le Board of Trade aurait eu la pensee de renoncer, appartient aux "Dispositions generales". Dans ces "Dispositions", ce sont exclusivement les "Gouvernements allies et associes" qui parlent et disposent au nom de leur groupe et pour lui. Quant aux questions affectant un seul de ces Gouvernements, une Section speciale (Par. II) a ete menagee. Il s'agit de la restitution - a la France, des Trophées et archives de 1870 (art. 245) - au Roi du Hedjaz, du Koran original (art. 246) - a l'Universite de Louvain de manuscrits, d'incunables, etc. en remplacement de ceux detruits dans l'incendie allume par l'Allemagne, etc.

En ces cas absolument personnels, chaque Etat consulte ses seules convenances. La France peut laisser aux archives allemandes les

papiers...

papiers politiques pris en 1870 à M. Rouher, ancien ministre d'Etat (art. 245). Le roi du Hedjaz est libre d'abandonner à l'ex-empereur Guillaume l'original du Koran, enlevé de Médine, qui lui a été offert par les Turcs (Art. 246). Ces largesses sont sans influence sur l'intérêt collectif des "puissances alliées et associées".

Il en serait tout autrement si l'une d'elles déclarait tenir pour non avenue telle disposition du traité qualifiée de "générale" précisément parce qu'elle a pour but d'en assurer l'observation par l'adversaire, au profit de tous.

Ici, toute dérogation suppose un accord préalable des co-intéressés. L'un d'eux, isolément, ne peut s'en tenir à ses vues personnelles; il risquerait, par une décision unilatérale, d'ébranler l'autorité des stipulations qui ont poursuivi l'avantage de tous. La pluralité des créanciers implique une force, qui a pour corollaire un clair devoir, celui de ne point emboîser l'arme commune, que deviendrait la valeur d'une épée, si l'un de ceux qui l'ont forgée, pour la défense de tous, proclamait qu'il n'y a plus lieu de s'en servir? En pareille occurrence, le sens commun vient à la rescousse du droit.

Edouard Clunet.

The Russia of today, that is Soviet Russia plus the various associated and federated Republics, including certain areas of doubtful allegiance in Asia, such as Turkestan, has an area of approximately seven million square miles, and a population of 150,000,000.

In pre-war times this same population (there has been little change) living in this same territory, supported itself at a certain standard of living by carrying on various industries. Portions of the area were devoted to agriculture, others to grazing, others to forestry, some to mining, some to manufacturing, some to fishing, hunting, etc., etc. Each of these areas produced a surplus of the commodities peculiar to its industry, the agricultural region more than sufficient food for its people; the forest, more than sufficient forest products; the mining, raw materials which it could not use itself; the pastoral, more than sufficient animal food-stuffs and hides. The surpluses were shipped to other sections and to foreign countries where they were in demand.

These regions were widely separated. The minerals of the Urals moved 400 or 500 miles into the industrial regions about Moscow and Petrograd. The oil of the Caspian Sea area travelled 1000 miles or more. The great coal basin of the Donetz shipped its products to points in the centre and the extreme north. The northern region received food from the Volga basin and the Ukraine, hundreds of miles away.

In addition to these surpluses in different sections of the country itself, the country as a whole produced many things in excess of its requirements - food-stuffs and many raw materials such as oil, hemp, flax, timber, manganese, platinum; but it was very short on manufactured goods. It sold its surpluses abroad in payment for the necessary finished wares in great variety.

This vast exchange of goods food and raw materials moving within the country toward the manufacturing centres and manufactured goods from the industrial centres outwards over huge distances; and the exchange with the foreign countries of food and raw materials for wares, was possible only by the maintenance of an intricate transportation system (40,000 miles of railway with over 20,000 locomotives and 500,000 freight cars, and many thousands of miles of well-equipped waterways), a large circulating medium of exchange (about \$6.00 per capita); and an elaborate organisation of credit institutions (over 28,000 banks and branches, with deposits which averaged \$22.00 per capita of the population).

It is well-known that since the revolution of 1917, a tragic economic disaster has overtaken the country. Industries, the transportation system, the credit institutions, and the entire economic structure of the country have been undermined. The production and exchange of goods have dropped to a small fraction of their pre-revolution dimensions.

In recent months, it is true, since the inauguration of the New Economic policy (NEP) there have been some signs of improvement; and the Soviet Authorities are pointing more or less boastfully to certain augmentations in production as proof that Russia is on the road to recovery. A closer examination of the facts, however, reveals but little cause for optimism. If Soviet figures are to be relied upon, it is a fact that production has increased in certain lines since August 1921 when the NEP first came into the light of day, but the growth is insignificant in comparison with the needs of the country.

			In 1921 Tons	X	In 1922 Tons.
Petroleum production has risen from			4,000,000	to	4,500,000
Coal	"	"	8,450,000	"	9,200,000
Pig-iron	"	"	102,000	"	173,000
Woollen Yarn	"	"	6,800	"	12,000
Cotton Yarn	"	"	1,600	"	55,000
Linen Yarn	"	"	7,500	"	17,000
Chemicals	"	"	50,000	"	150,000
Gold	"	" (pounds)	3,000	"	11,500
Fire-bricks	"	" (thousands)	3,500	"	14,500
China & Porcelain	"	" (pieces)	18,000,000	"	20,000,000

X

Assuming that production for the entire year 1922 is maintained at the same rate as for the first seven or eight months. (definite figures for the later months are not yet obtainable).

Certain other less important industries also show some increase, and there is likewise some improvement in the condition of the main Railway lines. The percentage of disabled locomotives has dropped from 67% in the early months of 1922 to 61% in September (this is mainly due, however, to an importation of 2,000 new locomotives from Germany. Beginnings have been made also in the re-establishment of banks and credit institutions.

To form any judgment as to whether the Russian Authorities' optimism in considering these and certain other signs of improvement as an indication that Russia has really entered a period of economic recovery, it is necessary first to form some quantitative estimate of her present economic position in comparison with her pre-revolution days and, second, to consider the means at her disposal for recuperation.

Food-stuffs and raw materials: In pre-war days, the present Russia produced 32,800,000 metric tons of bread cereals (deducting quantity required for seed) and 17,300,000 metric tons of fodder cereals, a total of 50,100,000. Of this quantity she exported 11,200,000 tons, leaving for home consumption 38,900,000. Her 1922 net crop is variously estimated at from 29,000,000 tons to 33,500,000 and there is no surplus for export. The meat - beef, veal, mutton, pork - slaughtered, formerly reached a total of 3,000,000 tons. In 1921 the total was only 1,260,000 tons. The figure for 1922 is not yet available but is unquestionably much smaller, for the number of animals has seriously decreased. The area under cereals has steadily declined from 150,000,000 acres in 1913-14 to 68,000,000 in 1921-22. The number of cattle has dropped from 43,400,000 head to about 20,000,000, and the average weight of carcass from 340 lbs. to 252 lbs. Sheep have fallen from 90,300,000 to 40,000,000, with a decline from 34 lbs. to 32½ lbs. in weight. Pigs have remained fairly steady in numbers (11,000,000 against 13,100,000) but the weight has fallen from 205 lbs. to 86 lbs. The number of horses - important both for food and as work animals in agriculture, has dropped from 37,000,000 to something like 20,000,000.

Surpluses of other agricultural products were also shipped abroad. Flax fibre production was 750,000 tons; 465,000 tons were used by the domestic factories or in household spinning and weaving, and 285,000 tons exported.

Hemp fibre ~~and~~ production was 400,000 tons, of which 327,000 were consumed at home and 173,000 exported.

Flax and hemp seed were raised to the amount of 1,033,000 tons. 880,000 tons were consumed within the country and 153,000 tons exported.

Seed cake was also shipped abroad to the extent of approximately 650,000 tons.

To-day the flax area has fallen to less than 30% of the pre-war level and hemp ~~ah~~ has declined even more seriously. There is no surplus for export, the greatly reduced production falling short of filling the requirements of the domestic mills.

Still other large surpluses were used for foreign purchases: Manganese was produced to the amount of 770,000 tons per annum. 600,000 tons were exported. The production to-day has fallen practically to nil, although there is an accumulated supply at the mines of probably 1,000,000 tons, which might be available under proper economic and political conditions. The iron-ore production in pre-war days was 9,000,000 tons, of which 8,000,000 were consumed and 1,000,000 exported. To-day the production has dropped to 225,000 tons, far less than requirements for home industry.

The petroleum production which formerly reached 9,200,000 tons, of which 8,000,000 were consumed and 1,200,000 exported, has dropped to 4,600,000, and there is no surplus for export. The exportable surplus of lumber and staves before the war was nearly 6,000,000 tons. This year there has been a small export (300,000 to 400,000 tons) from certain northern sections, but for the country as a whole there is a distressing shortage.

Gold was formerly reduced to a quantity of 134,000 pounds, nearly all of which went abroad. To-day the production is about 13,000 pounds. The entire platinum output (about 11,000 pounds) was also sold in foreign lands. To-day the production is a little over 400 pounds.

These pre-war surpluses, it must be remembered, were sent abroad, partly as interest on foreign capital investments but mainly for the purchase of manufactured goods and a few raw materials from the outside world. The loss in purchasing

power through the reduced production of the various items enumerated above is in the neighborhood of \$750,000,000 per annum.

But this does not tell the whole story. We must look also at the manufacturing industries of Russia itself, industries which in pre-war days supplied a large part of the demand of the home population for articles of clothing, household utensils, factory equipment, railway equipment, etc., etc. The basic ones, those which give a fair measure of the whole, are mining, the metallurgical and textile industries, and transportation.

Mining. Russia formerly produced almost enough coal for her own requirements. The pre-war output was 29,200,000 tons. In addition, there was an import of 6,000,000 tons, bringing the total annual supply up to 35,200,000 tons. The production to-day is 9,200,000 tons.

Russia formerly used (production minus export) 8,000,000 tons of petroleum. The production today is 4,600,000 tons.

The Copper supply (including a small import) was 38,000 tons. To-day it is less than 4,000.

The Lead and Zinc supply (including imports) was 80,000 tons. Today it is 5,600.

Metallurgical industry. The basic material, a fair measure of the condition of the whole industry, is pig-iron. The pre-war production was 4,200,000 tons. To-day it is 175,000.

Textile industry. The pre-war supply of raw cotton (including a large import) was 416,000 tons. To-day it is (home production alone) not over 25,000 tons.

The pre-war supply of flax fibre (production less export) was 465,000 tons. To-day it is not over 100,000 tons.

The hemp fibre supply was formerly 327,000 tons. It is now in the neighbourhood of 80,000 tons.

The Wool supply has dropped from an approximate total of 200,000 tons to under 80,000 tons.

The production of Cotton, Linen and Woollen Yarn (indicative of the activity of the whole textile manufacturing industry) has dropped; for cotton, from 280,000 tons to 44,000; for Linen, from 51,000 to 17,300; for wool, 96,200 to 12,000.

Many other industries show a similar condition. The production of fire-bricks has fallen from 162,000,000 in pre-war days to 14,500,000 now; cement, from 1,330,000 tons to 100,000; the most important chemicals, from 430,000 tons (including imports) to 150,000; mineral fertilisers, from 164,000 tons to 37,000; salt, from 2,000,000 tons to 400,000; sugar, from 1,700,000 tons to 50,000 or 60,000.

The total supply of fuel available in pre-war days (coal, oil, peat, wood, all reduced to equivalent in coal) was 56,400,000 tons. It is now 22,700,000 tons. The amount of fuel (reduced to coal equivalent) used in transportation in 1913 was 29,900,000 tons. The total supply available today is therefore only about 75% of the pre-war transportation requirements alone. Industries in 1913 used 17,500,000 tons. To restore them to their pre-war activity would use up nearly all of the present available production and leave almost nothing for transportation or domestic and other uses.

Transportation. Russia still has some 40,000 miles of railways. The road-beds are, many of them in bad condition, but in the main they are still useable. The rolling stock, however, shows a critical shortage. In pre-war days, there were 480,000 freight cars in running order; there are now about 130,000. Locomotives in operation formerly numbered between 17,000 and 18,000; there are now, including new ones purchased during the past year from Germany, about 7,500. The production of railway rails in 1913 was 580,000 tons, and is now about 20,000 tons.

In 1913, Russia built 609 new locomotives; in 1921, 79. She also built in 1913, 20,500 freight cars; in 1921 800.

Banking & Credit Institutions. As we have already seen, in pre-war days Russia had over 28,000 institutions of this sort, including branches, with total deposits of \$3,500,000,000, or \$22.00 per capita. Since the establishment of the State Bank in December 1921 and of the Co-operative Bank in the spring of 1922, some 200 banking and credit institutions, including branches, have been restored; but their total deposit, according to the latest available data, reached only \$11,000,000, or less than eight cents per caput of the population.

Medium of Exchange. The total currency in circulation before the war amounted to about \$6.00 per caput of the population. Today, in spite of stupendous issues of paper (900,000 milliards of rubles) the total circulation, reduced to gold, reaches only about 75 cents per caput.

These figures - it must be remembered that with few exceptions they are furnished by the Soviet Authorities themselves and are therefore unquestionably colored with rosy exaggerations - reveal a situation whose seriousness needs but little comment. Before the war the people of present Russia as a whole had a superabundant supply of food-stuffs. They imported large quantities of food, it is true, but ~~these~~ these were in the nature of luxury goods; and the exports exceeded imports by some \$360,000,000. Now, in a good harvest year, they have barely enough to meet their own requirements and the area under cultivation and the number of domestic animals are still declining. Before the war they consumed manufactured goods each year to the value of \$1,435,000,000, of which \$1,250,000,000 were made at home and \$185,000,000 imported. Now, their imports are negligible and their home production barely reaches \$250,000,000.

To come back to anything like her pre-war conditions Russia must therefore raise her agricultural production to nearly double its present figure (merely to meet domestic demands) and must make provision, either by restoration of home industries or by procuring the means to purchase abroad, to increase her present supply of manufactured goods nearly five-fold.

Can it be done? First, can she do it with her own resources and efforts?

The Soviet Government itself has given up all hope that agriculture can be restored until the peasants can be assured that needed clothing, household utensils, equipment, machinery, hardware, can be secured in exchange for any surpluses they may produce. The prime cause of the decline in area cultivated is recognised as lack of incentive on the part of the farmers. Even with restored incentive, however, although there might be improvement, there is no hope of a return to normal production. In the first place, equipment is too far depleted. For five years the peasants have been without a normal supply of implements, tools and machinery, and the number of work animals has declined by fully 50%. The pre-war supply of agricultural machinery, etc., was about \$25,000,000 per annum (\$6,000,000 import and \$19,000,000 home production). Now there are no imports, and home production is almost negligible except in such small tools as scythes and sickles. Russia formerly produced 667,000 ploughs. The present output according to the latest figures, is about 130,000. The output of harrows in 1913 was 127,000; now, 8,000; reapers and binders 111,000, now 11,600; threshers 110,200, now 2,300; seed-drills 68,400, now 470.

The peasants in 1913 consumed about \$410,000,000 worth of textile manufactures. Today the total value of the textile output of the country does not exceed \$75,000,000. Similar conditions apply to all other necessaries of normal life.

What is true of the agricultural classes is equally true in the industries of mining, forestry, and transportation. Factories cannot operate without fuel, raw material, and machinery. Factory operatives demand food and the normal supplies of clothing and conveniences. Mining, forestry, and transportation similarly demand equipment, food and clothing supplies. With the best of intentions each industry must wait for products necessary to enable it to start. These essential products can be produced and hence procured only after some other industry has made a beginning. It is a vicious circle.

If the decay of activity were slight, there might be some hope that the restoration of the will to work might bring back some approach to normal; but with industry operating today at under 20% of pre-war capacity, and with the cultivated area not more than 45% of normal, it is so obvious as to be admitted even by many of the Soviet Authorities themselves, that reconstruction from within is an impossibility.

If there is to be any salvation, it must come from without the country, with cooperation from within; and even then the task will be a stupendous one. Figures of urgently needed assistance presented by certain Soviet authorities are fairly staggering. They estimate that to restore agriculture and transportation within five years will require a capital advance for agriculture of \$2,000,000,000, and for transportation \$1,500,000,000. For mining, metallurgy, and the manufacturing industries together, their figures reach another two to three thousand million, making a total of, say, \$6,000,000,000.

But all such estimates made by the Soviet authorities appear to be based on what they would like to get, with little serious thought as to ways and means or the justification for getting it. A saner method would be to estimate the possibilities of assistance which might, under proper economic and political conditions, be obtained, and then cut the garment to suit the cloth.

Russian foreign trade before the war (average 1909-13)

reached the following figures:-

	Imports	Exports
Food & Live Animals	\$ 107,000,000	\$ 464,000,000
Raw and partly manu- factured materials	242,000,000	249,000,000
Manufactures	222,000,000	38,000,000
	<u>\$571,000,000</u>	<u>\$751,000,000</u>

The excess of Exports over Imports of \$180,000,000 may be taken as measuring roughly the service on loans and foreign investments.

If we may imagine Russian production and trade restored to its pre-war condition, we should therefore have a surplus of \$180,000,000 which would continue to be paid for the service of pre-war loans and investments, assuming that these pre-war debts must be recognised before any considerable amount of new foreign capital will go into the country. We may assume, on the other hand, for the sake of argument, that the war loans to Russia are balanced by counter-claims made by Russia against the Allies (according to Russian figures the indebtedness of Russia to the Allies reaches approximately \$10,000,000,000, while Russia's counter-claims total double that amount). To cover interest and sinking fund on a new advance of \$6,000,000,000 would require under present conditions, an increased balance of export of at least \$60,000,000 per annum.

Looking again at the total of imports and exports given above, we note an item of \$107,000,000 for food-stuffs and animals. Two-thirds of this is made up of articles of quasi-luxury character such as fruit, tea, wine, spirits, coffee, cocoa,

and we may imagine the Russian people under the pressure of necessity eliminating their purchases of these articles except probably tea, and reducing their demand for others. We may perhaps assume a saving in this item under favourable conditions of \$75,000,000 to \$80,000,000.

Of the raw and partly manufactured materials imported (\$242,000,000) the chief items are raw cotton, jute, wool, silk (\$100,000,000), yarns (\$17,000,000), metals and ores (\$20,000,000), hides (\$18,500,000), coal and coke (\$25,000,000). These and other items might be dispensed with as foreign purchases, but it would obviously be at the expense of home manufacturers, and would involve enlarged importation of finished products, probably at greater cost, to fill the gap. So far as they contribute to the home manufacture and consumption of finished goods of the luxury or less essential class, there might be some reductions; but it is hardly likely that the total importation of such goods could be reduced below, say \$200,000,000 without economic loss. This would effect a saving of \$42,000,000 to be added to the saving on imported food-stuffs, making a total of, say, \$125,000,000. It is not impossible that another \$25,000,000 might be saved on the importation of manufactured luxuries, bringing the total saving up to \$150,000,000, a sum which could hardly be expected, at present to be made the basis of loans and credits higher than, say, \$1,500,000,000.

This guess - it is obviously hardly more than that - is, however, based on the violent assumption that the economic activities of Russia could quickly be restored to their pre-war level. How far from possibility of realisation is any such level, is revealed by the figures and facts given in the preceding table. Agriculture, industry, mining, transportation, currency, banking credit and exchange institutions have broken down in catastrophic fashion. Russia has been set back in its economic

status by many decades, and is to-day almost in the position of a newly discovered country devoid of manufactures, devoid of transportation and of the barest essentials of the complicated system and organization of exchange which makes possible the maintenance of a dense population on a reasonably high plane of economic prosperity. Speaking broadly, she has nothing but her immense natural resources which, if she is to advance in the plans of economic civilisation, must be developed through attracting foreign capital. She is almost back to the position of a century ago, except that, unfortunately, the population developed under an economic system made necessary by its growing numbers is far more dense and thus makes the problem far more serious than it would be if Russia were merely a newly discovered land in a backward stage of development.

The obvious thing to do would appear to be to approach the problem as if it really concerned a newly discovered country rich in natural resources. Things which could be developed quickly would be the first to claim attention, and these are agriculture and the extractive industries generally. Among these in Russia under present conditions agriculture and forestry come first: they would respond quickest to the proper stimulus; the physical equipment required for their restoration is the simplest; the returns need not be long delayed; they might, given the proper political conditions, (involving a change of heart on the part of the government toward foreign capital) be expanded within a few years to a productiveness even greater than before the catastrophe.

Closely connected with this development, in fact running almost pari passu with it in importance, would be the restoration of a transportation system on a sufficient scale to carry the products to market. This too might come quickly, for the railway rights of way exist unimpaired and the road-beds are at least in useable condition, while as to waterways, the rivers and canals are as they

were, except that dredging has been neglected for five years or so. The chief need is for rolling stock and river craft.

The mining industry in general must lag behind. In the ^{rest} coal, iron and oil regions, neglect and misuse have reduced the workings to a condition which will require a long period of recuperation. Gold, platinum, asbestos, and a few other minerals might be much more rapidly restored, but their value was never a very large item in Russia's total production.

As to manufacturing industries, it is difficult to see how any quick recovery can be expected, except as they may possibly be fostered by a government which mistakenly imagines that the economic position of the country is sufficiently strong to support them. Any capital investments that foreigners can reasonably be expected to devote to the rehabilitation of Russia will unquestionably be inadequate, even for the proper development of agriculture, forestry and transportation, and even here the steps must be taken gradually and tentatively, just as they would be in any newly discovered country situated as Russia is. There is not likely to be any considerable inflow of capital for manufactures.

Granted that the political and economic policy of the Russian Government continues to move in the direction taken last year with the inauguration of the New Economic Policy, and that the "Communist" dictators in the Soviet Administration can bring themselves to take the final steps which will mark a complete return to economic sanity and make the country ~~ix~~ attractive for foreign investment, the question propounded in the title of this article may be answered in the affirmative.

The first advances of foreign assistance are likely to be in forestry, agriculture and transportation. The mineral industry will be given more or less attention; but it is hardly possible that much will be done for manufactures for a long time to come. Even with agriculture, forestry and mineral development and the

accompanying partial revival of transportation, however, it is not to be expected that the standard of living of the mass of the Russian population can be restored rapidly. It will be only by the strictest economy and the cutting down of consumption to the barest necessities that surpluses will be likely to be produced sufficient to pay for the capital which must be attracted in order to make even the first steps towards recovery possible.

If the development takes place along the lines indicated the conclusion is obvious that for a long time to come the exports of Russia will be of food-stuffs and raw materials. The imports of capital and the demands of the population to fill the vacuum left by the destruction of Russia's manufacturing industries will cause her imports to be almost exclusively of manufactured goods.

What this means to the western world is also obvious. It points to increased supplies of food-stuffs and raw materials, and a large new market for manufactured goods. If Russia should manage to maintain her manufactures at the present level; if the population should be able to economise its demands for manufactured goods to so great an extent as 50% of her pre-war consumption; there would still remain a gap of \$500,000,000 per annum to be filled. In addition, if investments of foreign capital for the rehabilitation of agriculture and transportation should reach one-quarter only of the Russian estimate of the sums required, this would call for an additional import of \$300,000,000 a year for the next five years or more, giving a total of \$800,000,000 a year. Payments for the manufactures imported for direct consumption plus payments for interest and amortisation on old and new loans and credits would call for an export of food and raw materials running from about \$700,000,000 for the first year up to more than \$800,000,000 in the fifth.

It is not beyond the range of possibility that, given the essential final steps in the right about face in Russian governmental policy initiated by the New Economic Policy, the country might be able to meet these requirements. But it is obviously highly improbable that the recovery can be rapid; the disaster is too complete; the sums involved too huge. Even in industries giving quick returns the first steps are apt to be cautious and slow, and the development will be in constant danger of being retarded through the mistaken efforts, not only of the Soviet Government itself, but of capital interests of the old regime as well, to bring about a simultaneous revival of all industries, instead of concentrating on the few most fundamental ones.

/s/ Lincoln Hutchinson.

Dec./22

JAMES A. LOGAN JR.

Paris, 2 February 1923.
18 rue de Tilsitt.

Personal & Confidential.

My dear Ben,

With our letter of January 26, 1923, we forwarded as Exhibits A and B, respectively, summaries of the "French proposals for Reparation Program for the calendar years 1923 and 1924". After reciting how this proposal had been informally transmitted to the various Delegates on the Commission on January 23; officially filed with the Secretariat of the Reparation Commission on January 25; and then after the Belgian and Italian protests, we stated in our letter that: "late last evening" (January 25) "the French proposal was withdrawn from the Secretariat and replaced by a joint Franco-Belgian Note to the Commission asking the latter to record a general report of default". As a matter of fact, the French proposal which had been officially presented was not withdrawn, but consideration of it was suspended under the following circumstances as shown by the records of the 353rd Meeting of the Reparation Commission held the afternoon of January 26, 1923, viz:

"The Chairman" (M. Barthou) "recalled that he had informed his colleagues of his intention to lay on the table of the Commission a draft of a moratorium in the name of the French Delegation, and that he would circulate this draft to them unofficially beforehand so that they might be able to examine it and, if necessary, communicate with their governments. That promise he had fulfilled, and the draft had only been officially before the Commission since the previous day. He had, however, in agreement with the President of the Belgian Delegation, noted that Germany was taking general steps to oppose the consequences which the giving notice of the defaults, within the meaning of Par. 17, Annex II, would entail upon her. They were at that moment confronted by a Government which was giving formal instructions that all reparations should be refused, both to Belgium and France, that was to say, a Government which was deliberately avoiding the fulfillment of its obligations towards these two Powers. Under these circumstances the French and Belgian Delegations had agreed to request the Commission not to examine the conditions of a moratorium which had been rendered null and void by Germany herself, but to face the actual state of affairs by resolving that the only logical solution was the pure and simple reversion to the Schedule of Payments of May 5, 1921".

At the same time M. Barthou stated that the French proposals as "officially before the Commission since the previous day" set forth the French Government's views as to the conditions under which any moratorium granted Germany should be based. In our judgment, this "proposal" deserves certain interest not only as representing M. Poincaré's ideas as to the terms under which any moratorium should be granted, but particularly as indicating by some of its details the scheme of accountability to be adopted by the Franco-Belgians over any German collections effected by them in the occupied territory.

The Commission at its meeting on the afternoon of January 26 concerned itself with the consideration of the Franco-Belgian request for report of general default (For the text, see Exhibit C with our letter of January 26, 1923). During the meeting M. Barthou endeavored to secure an unanimous vote in support of the Franco-Belgian proposal. Sir John Bradbury, however, declined in the following terms:

"The decision which was then before them was one which he himself could not support, as it seemed by implication to adopt a certain construction of certain provisions of the Treaty of doubtful tenor to which, for the moment at any rate, he was not prepared to give his consent. If that decision were taken unanimously, it might at a subsequent date be alleged that the Commission had unanimously given a certain interpretation to Paragraph 18 of Annex II to Part VIII of the Treaty. Sir John Bradbury did not at that moment wish to discuss either the interpretation of that paragraph or the preliminary question as to whether the duty of interpreting it fell within the province of the Commission. He desired to put on record the fact that he could not at that moment be a party to any interpretation of that paragraph either directly, by implication or otherwise".

M. Barthou then asked Sir John Bradbury whether the latter would submit an alternative proposal under which an unanimous vote could be secured. Sir John Bradbury replied that he:

"was willing to indicate in general terms the kind of motion which he considered might secure unanimity. He suggested the following 'Having regard to the situation which has arisen between the German Government on the one hand and the French and Belgian Governments on the other hand, the Reparation Commission thinks that no useful purpose would be served by discussing the terms of the moratorium requested by the German Government and that therefore a negative reply must be given to the application sent by that Government in November last.' The motion might then state baldly that, in those circumstances, the Schedule of Payments was in operation as from January 1st last."

M. Barthou replied:

"that that very clear reply might cast much light on the

"discussion. It showed that two distinct questions arose. The first concerned the moratorium and the second concerned the general default by Germany towards France and Belgium. On the first point, Sir John Bradbury agreed with the Franco-Belgian Note, as he stated that the situation was such as to render impossible any discussion on the request for a moratorium which automatically fell and left the Schedule of Payments in operation. The Chairman" (M. Barthou) "proposed to proceed to a vote upon the first point. The attitude, however, of the French Delegation--and he was confident that the Belgian Delegation would agree with him--had a double aspect: it stated, in the first instance, that the request for a moratorium had been rendered null and void by the act of Germany and, in the second instance, it requested the Commission to note the formal statement made by the German Government on January 13, 1923, suspending all reparation both for France and Belgium and, in accordance with the terms of Par. 17 of Annex II to Part VIII, to take note of a general default, about which at the moment no possible doubt could exist, as in all respects Germany was resisting her Treaty obligations. The general character of this default would have the advantage of not putting the French Delegation under the necessity of seizing the Commission of a series of specific defaults. In this connection, Sir John Bradbury made reserves as to the interpretation of Par. 18. The Chairman could only say once more in reply that Par. 17 belonged to the Commission alone; if it declined to take note of the default, the discussion was either brought to an end or adjourned; if it took note, it informed the interested Powers of the fact, being free either to submit or not to submit proposals to them. It was then that Par. 18 came into play. The Chairman had already expressed his unwillingness to discuss that point, but he did not desire to avoid expressing his opinion, which was, that in so far as Par. 17 came within the province of the Commission, to the same extent Par. 18 was within the province of the Governments. In demanding that notice of default be taken, the Belgian and French Delegations remained within the terms of Par. 17."

Sir John Bradbury replied that he:

"was bound to confess that the method by which an unanimous decision would be taken on one question and a majority decision on the other did not seem to him to be really practicable. x x; x x x x x x x x x x. His suggestion was that the Commission should content itself by stating, that in the present circumstances, no useful purpose would be served by discussing the moratorium and then that it should leave the situation to develop itself. If that suggestion were not accepted, he must leave his colleagues to take whatever steps they thought most desirable without him".

M. Barthou replied that:

"as French Delegate, it was to his great regret, quite impossible for him to accept Sir John Bradbury's proposal. He was obliged formally to maintain his request that note of the default be taken".

Finally, after prolonged debate on the issues above raised, the following majority decision of the Commission was taken with Sir John Bradbury "abstaining":

"The Reparation Commission decided:

1. That by its declaration of January 13 the German Government cancelled its request of November 14 for a moratorium and that no action was required to be taken in respect of that request, which had become null and void as a result of the act of the German Government. In consequence, the Schedule of Payments of May 5, 1921 was in operation as from January 1, 1923;
2. To declare, and to give notice of to each of the Governments concerned, under Par. 17 of Annex II, Part VIII of the Treaty of Versailles, a general default on the part of Germany in the performance of her obligations towards France and Belgium."

This decision was formally communicated to the Allied Governments and to the German Government January 26, 1923. A copy of the Commission's notification to the German Government is attached as Exhibit A.

As concerns the Ruhr occupation, it is interesting to note the recent development of Franco-Belgian policy. On January 11, when the French and Belgian troops entered the Ruhr it was announced that "the despatch of troops was not a military action but only contemplated security for the Allied engineers and other Allied experts who are being sent in to supervise mining and transportation". At the same time it was announced that plans had been prepared and every arrangement made to take over the mines and transport system if German opposition forced such a line of action.

In our judgment, considered solely from the aspect of the Poincaré thesis, this procedure was weak in the extreme, and the lack of results to date bear this out. In other words, when Poincaré had fully made up his mind to go into the Ruhr, it would have been better for his plans to have made the occupation military and thorough by forthwith shutting off coal shipments to Germany, rather than to have lost two or three weeks which he has lost by following his somewhat timid policy.

Poincaré is now working around to the obvious sensible policy, if he was going into the Ruhr, of encircling it as a military measure and sitting as still as possible, letting the Germans carry on their hunger strike as long as they like. The French and Belgian Governments published the following decision on January 31:

"The French and Belgian Governments at 6:00 o'clock, January 31, advised the German Government, through the inter-

"mediary of the German Ambassadors at Paris and Brussels, that by reason of the general default of Germany of its Treaty obligations as determined by the Reparation Commission that the occupying authorities of the Ruhr have received orders to stop all movement of coal and coke into Germany from the occupied territory as from February 1, 1923".

The text of the official letters from the French and Belgian Governments to the German Government is attached as Exhibit B. It is interesting to note the last paragraph of the text of these communications, which is as follows:

"Under these conditions, taking into consideration the general default established by the Reparation Commission, the French Government acting in virtue of Par. 18 of Annex II, Part VIII, of the Peace Treaty, informs the German Government that from February 1st no shipment of coal will take place from the occupied zone towards the remainder of Germany".

It is interesting to note the positions taken severally by the French and Belgian Governments as concerns Paragraph 18 of Annex II, Part VIII, of the Peace Treaty. The British contention has been that action under Paragraph 18 requires the joint agreement of the Allied Powers, and Sir John Bradbury's position during the meeting of the Commission of January 26 was designed for the purpose of not compromising the British position in this particular. However, as is apparent from the foregoing, the French and the Belgians, without British agreement, have interpreted Paragraph 18 in accordance with their own individual views, and have acted accordingly. The French press of today intimate that the January 26th decision of the Commission supported the Franco-Belgian interpretation of Paragraph 18. Such press reports are inexact, as the extracts from the Minutes of the Meeting quoted in this letter will show.

As stated, it is difficult for us to see why the French and Belgians waited until February 1 before adopting the logical line of action demanded by their policy. No one on the outside could understand it, and the question naturally arises as to the explanation. In our judgment, it was probably because at first their real conception was more militaristic than constructive camouflaged for home and foreign consumption into the form of management of mines and transport. They also perhaps had the idea that the Germans would really not take the risk they are taking, and that therefore they would have been able to take the product of the mines without opposition. The change seems due to the increasing conceptions of what they may get into if they do not quickly adopt the "sitting still" policy; also it is a concession to more reasonable French opinion which followed unwillingly and is now trying to get some sense into the policy, the adoption of which they regret. More reasonable French opinion is shown by the views expressed in the letter which was confidentially handed us by a French official and which was forwarded as Exhibit B with our letter of January 26, and by the views informally expressed by M. Loucheur, quoted in our same letter.

We now come to the question of the Franco-Belgian "sitting still" policy in the Ruhr; It is obviously filled with complications of the most serious character, but it seems sure that it will ultimately force the hand of Germany, whatever its effects may be on France and Belgium. We can not emphasize too much or too frequently that any form of the present policy, whatever may be its immediate successes, is disastrous for reparations, for Germany, for France, and for all outside nations, both from the point of view of economics and of peace, which is one of the most important factors in economics.

M. Poincaré, on the evening of January 29 in the course of an interview with the press, made a statement, in effect, as follows:

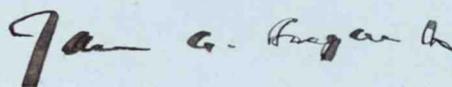
"The Germans have been circulating the report that France has the intention of annexing the Ruhr Basin so as to assure the coal and coke supply necessary for the French metallurgical industry of Lorraine. France has no such intention, but it will not evacuate the Ruhr until the German Government has shown a sincere desire to liquidate its obligations. At that time French and Belgian troops will evacuate the Ruhr, and after the period of 15 years provided by the Treaty not a single Allied soldier will remain on the left bank of the Rhine. However, France can not accept vague promises. It will demand proof. After the war of 1870, the Prussian troops did not evacuate the last portion of French territory until after the last cent of the indemnity had been paid by France".

This declaration was made to counter-act rumors which have been circulating to the effect that the Poincaré policy had, as its ultimate end, the annexation of the Rhineland and Ruhr by France. Rumors which have been given some circulation to the effect that the French Government, in the event of their policy forcing a break-up of Germany, would support some form of independent Government in the Rhineland and Ruhr have, as yet, met with no denial. We attach no special importance to this latter fact, but it is worth bearing in mind under certain eventualities.

The Chamber of Deputies on February 1 by a vote of 485 against 81 suspended the interpellation of the Government on its foreign policy. This has no significance other than a desire on the part of those opposed to the Poincaré policy and who on this occasion gave their vote to Poincaré "to wait and see".

Faithfully yours,

JAL/BD



The Honorable Benjamin Strong,
Governor, Federal Reserve Bank
of New York City.

JAMES A. LOGAN JR.

Paris, 18 rue de Tilsitt
9 February 1923.

PERSONAL & CONFIDENTIAL

My dear Ben,

With our letter of February 2, 1923, we forwarded as Exhibit A a copy of the notification of January 26, 1923, to the German Government, of the following decision of the Commission of the same date, viz:

"The Reparation Commission decided:

First. That by its declaration of January 13 the German Government cancelled its request of November 14 for a moratorium, and that no action was required to be taken in respect of that request which had become null and void as the result of the act of the German Government. In consequence the Schedule of Payments of May 5, 1921, was in operation as from January 1, 1923.

Second. To declare and give notice to each of the Governments concerned under paragraph 17, Annex II, Part VIII, of the Treaty of Versailles a general default on the part of Germany in the performance of her obligations towards France and Belgium."

The German Government in a letter addressed to the Reparation Commission under date of February 1, 1923, after acknowledging the receipt of the Reparation Commission's communication above referred to of January 26, 1923, stated:

"As shown in its note of January 13, 1923, the German Government has ceased its deliveries to France and Belgium solely on account of the occupation of the Ruhr Basin by these two Powers in contravention of the Treaty of Versailles, and solely for the duration of the state of affairs created thereby which is contradictory to the Treaty and of its consequences. The German Government has exercised an indubitable right in so doing. There can be no question of a default in the meaning of paragraph 17. The German Government therefore enters a protest against the declaration of such default.

"The German Government must likewise contradict the assumption that its request for a moratorium has become null and void. The Reparation Commission itself in its decision of March 21, 1922" (R.C. Annex 1339a - 1340 - 1341) "stated that the financial situation of Germany made it impossible for the German Government to completely fill its

"obligations for the year 1922 under the Schedule of Payments of May 5, 1921, and Article 249 of the Treaty of Versailles. The Reparation Commission further stated expressly in its decision of August 31, 1922" (R.C. Annex 1519) "that the Reich had lost all credit at home and abroad and contemplated a reduction of Germany's foreign charges. In the schemes laid before the Paris Conference of January 2, 1923, the principal Allied Powers then unanimously admitted Germany's present incapacity to make payments, when they provided for an immediate moratorium of several years in addition to a reduction of Germany's total debt under the Schedule of Payments of May 5, 1921. Meanwhile, the financial and economic position of Germany has been further impaired by the occupation of the Ruhr Basin, the mark has fallen to 1/10,000 of its pre-war value. If the Reparation Commission now returns to the London Schedule of Payments the German Government can only regard it as a contradiction of the position previously taken by both the Reparation Commission and the principal Allied Powers. Moreover, the Reparation Commission is thereby ignoring the provisions of the Treaty of Versailles which make the total reparation debt of Germany dependent on her capacity to make payment, and give her vital necessities priority over the reparation obligations.

"After the invasion of the Ruhr Basin and the beginning of the economic and financial isolation of the Left Bank of the Rhine and the Ruhr Territory from the remainder of Germany's economic organization, the German Government is less than ever in a position to fulfill the London Schedule of Payments. It can discover in the Reparation Commission's decision of January 26 no real reply to its note of November 14, 1922, and will expect an investigation of Germany's capacity to pay under Article 234 of the Treaty of Versailles".

The Reparation Commission at its 356th Meeting on February 3, 1923, considered the foregoing letter of the German Government and decided:

"After having taken note of the German reply of February 1, the Commission decided by three votes and one abstention that this letter did not require any reply, and that the Commission's decision of January 26 was maintained with all its consequences".

The French, Italian and Belgian Delegates voted for the decision; the British Delegate abstained. There was practically no debate within the Commission on the German letter preceding the vote, it being generally considered as having no significance other than that of a juridical protest of record. As the German letter of February 1st had been published by the Germans, the Commission's decision of February 3rd was likewise published.

Concerning the Ruhr Occupation. As stated in our previous letters, "we expect that the Germans will have to lie down" for under the policy adopted "the French will have to make them". Based on this assumption the question arises as to how long the Germans can "hold out", and incidentally what is the repercussion of such "holding out" on the economic life of the Allies. Our judgment, as expressed in the last letter, was that the French, having embarked on the Poincaré policy by the occupation of the Ruhr on January 12, 1923, should have forthwith suspended "coal shipments into Non-Occupied Germany and then adopted the 'sitting still' policy calmly awaiting the effects of coal starvation on Germany to force the latter to terms". On the other hand, the French did not suspend coal shipments into Non-occupied Germany until February 1, and on this account nineteen days were wasted. With a view to determining the approximate date of the inevitable breaking point of Germany's resistance, it is necessary to give a short résumé of the German coal position as we see it today. This we will treat under the following general headings:

- A. Production and Distribution of Ruhr Coal.
- B. Coal Supply of Non-Occupied Germany.
- C. Conclusions.

A. Production and Distribution of Ruhr Coal.

During the year 1922 approximately 8,000,000 tons of coal per month were mined in the Ruhr District. This coal was distributed as follows (figures approximate):

1,200,000 tons	Consumed at the mines.
1,000,000 "	Consumed by industry within the Ruhr Area.
2,500,000 "	Shipped from the Ruhr Area into Non-occupied Germany.
800,000 "	(in Delivered to the Allies on reparation account. coal)
<u>2,500,000 tons</u>	Converted within the Ruhr Area into 2,000,000
Total 8,000,000 "	tons of coke. °

° As to the 2,000,000 tons of coke produced in the Ruhr Area, it was distributed in the following manner:

1,000,000 tons	Consumed by industry within the Ruhr Area.
500,000 "	Delivered to France on reparation account.
<u>500,000 "</u>	Shipped from the Ruhr Area into Non-occupied
Total 2,000,000 "	Germany.

B. Coal Supply of Non-occupied Germany.

During the months of May, June, July, August and September, 1922, approximately 7,000,000 tons of coal were imported into Germany from Great Britain. The German Government, in explanation of this large importation, early last June informed the Commission that it was necessary for replen-

inshing reserve stocks for railways, large industry outside the Ruhr, and municipal gas, electric and water supply. The Germans stated that prior to this importation their reserve stocks had been gradually consumed, leaving only some five to seven days reserve on hand. Last fall, during a Commission's hearing of the Germans, the latter stated that with the coal received from Great Britain the railways had established reserve stocks for approximately forty four days, and large industry and municipal gas, electric and water supply for sixty days (all outside the Ruhr and Rhineland Areas). Such reserve stocks, in our judgment, were not excessive, considering the dangers incident to the social situation of Germany, and it is therefore hardly reasonable to assume the accumulation of such stocks a premeditated action on the part of Germany designed to assure a supply of coal during a period of "passive resistance" such as is now being carried on on account of the Allied occupation of the Ruhr. The above mentioned classes of coal demands in Germany include all, except requirements of the home and small industry. The latter two classes represent only about 20% of the entire demand, and due to the mildness of the winter this figure of 20% is perhaps in excess of actual demands this year. We have no information as to existing reserve stocks for home and small industry in Non-occupied Germany. The number of days supply mentioned in the first classes, representing at least 80% of the German requirements, is calculated on the basis of the normal demand. By cutting down train service; by restricting the use of gas, electricity, and water; and curtailing consumption by industry, measures which to a certain extent have already been adopted in Non-Occupied Germany, the stocks on hand can be made to cover a period much in excess of that indicated.

Due to the French and Belgians having permitted the period from January 12 to February 1 to be wasted before suspending coal shipments from the Ruhr Area into Non-Occupied Germany (and this notwithstanding the fact that the Germans on January 12 suspended reparation coal deliveries to France and Belgium), Non-Occupied Germany actually received not only its entire quota of Ruhr coal for the month of January but in addition a considerable quantity of the coal originally ear-marked for delivery to France and Belgium on reparation account.

C. Conclusions.

Based on the foregoing, we are justified in assuming:

- (a) That the coal supply of Non-occupied Germany from the Ruhr up until February 1, 1923, was above normal,
- (b) That to the foregoing supply should be added the accumulated stocks representing from four to six weeks normal supply, and
- (c) That, therefore, up until at least April 1, 1923, the coal supply of Non-occupied Germany on a normal basis is assured.

In consequence, and based exclusively on the factor of the effects of coal starvation in forcing Germany to terms, the latter's "breaking point" on this account is not before April 1, and in all probability, by imports of British, Polish, and Czecho-Slovakian coal, and by curtailing consumption as

indicated, the breaking point could be postponed for a further appreciable period of weeks.

We now turn to the social side of the Ruhr occupation. All reports received by the Commission indicate that so far as the miners are concerned, their attitude to date is not especially resistant--perhaps even docile, to the Franco-Belgian operations in the Ruhr. The generally accepted estimate of the total number of miners in the Ruhr Area is 550,000, divided into the following broad social groups, the individuals of which groups are intermingled in the various mines:

- 205,000 Social Democrats - Not actively hostile to the Allied policy,
- 205,000 Christian Socialists - Strongly nationalistic and actively hostile to the Allied policy,
- 70,000 Poles - Pro-Allied sentiment,
- 70,000 Communists - Opposed to both French and German capitalistic interests involved in the Ruhr operation.

At this writing the actual production of coal is falling off. Our reports show that for the moment production has fallen to about 33% of normal. Such falling off is attributable to the transport disorganization described below, and the consequent difficulties of stocking coal at pit heads which automatically reduces the quantities that can be mined.

On the other hand, the personnel of the railways, canals, posts and telegraph, are today strongly nationalistic, and actively hostile to the Franco-Belgian operation. The larger groups, including practically all the transport personnel, are today on strike. Train service is almost completely interrupted and sabotage on an extensive scale of the railway facilities of the Ruhr and Rhineland is being carried out by this personnel. In addition to these distinct phases of sabotage, stocks of spare engine and car parts in round houses and depots, spare parts of signal and other equipment maintained both in the Rhineland provinces and in the Ruhr Area during the period January 12 up until the suspension and supervision of railway transport with Non-occupied Germany on February 1, were shipped out of the occupied areas, thus adding to the existing confusion. Cars loaded with coal and other commodities and shipped into Non-occupied Germany from the occupied areas have not been returned, with the result that the Ruhr and Rhineland railway car parks have been seriously depleted. All of the foregoing, while not irreparable in consequences, nevertheless has contributed to the development of a serious transport situation which at best and under any and all conditions will take many weeks or perhaps months to readjust. Many of these difficulties now facing the Franco-Belgians could have been obviated had the policy adopted at the inception of the occupation of the Ruhr been less hesitating. The French and Belgians are hopeful that by replacing the higher German grades in the transport personnel of the occupied areas with Frenchmen and Belgians that orderly operations can be reestablished. Press reports indicate that up to 15,000 higher grade Frenchmen and Belgians are being sent to these areas for this purpose.

To add to the difficulties, the miners of the Saar Coal Basin have gone on a general strike. Certain portions of the French press

report this strike as economic and local in character and without relation to Ruhr happenings. On the other hand, advices to the Commission and other portions of the French press indicate that the Saar strike is sympathetic with the German nationalistic feeling resulting directly from the Ruhr occupation. The average monthly production of Saar coal which is now interrupted due to this general strike is between 7 and 800,000 tons. While the larger portion of this production was used in the surrounding French industrial areas of Lorraine and Briey, nevertheless an appreciable flow was maintained to Switzerland and Central Europe. In the event of this strike continuing for any length of time, we may expect some economic repercussion in these latter areas. We are informed, however, that the French propose adopting a stern policy in the handling of this strike, and are therefore hopeful of this situation being ameliorated in the near future.

We next come to the French coal position. France consumes approximately 4,500,000 tons of coal per month. On January 12 the Germans suspended reparation coal and coke deliveries to France. These deliveries had amounted to approximately 500,000 tons of coke and 350,000 tons of coal per month. Reparation coal and coke in transit from the Ruhr was delivered with the result that the suspension of deliveries was not felt in France until about January 20 or 25th. However, since then no coal or coke in any appreciable volume whatsoever has been received by France from the Ruhr.

Assuming the continuance of the Saar strike and the non-receipt of coal and coke from the Ruhr, France's monthly supply is reduced by approximately 1,000,000 tons of coal and 500,000 tons of coke per month, or in other words by about 33%. The number of days reserve stocks of coal in France are said to be appreciably less than those stated for the German stocks. Therefore, France will be either forced to curtail the use of coal or to import substantial additional quantities of British coal to ward off a French "breaking point". However, there is an ample supply of British coal available and France is better able to stand the financial strain of importation of coal than Germany.

The most serious shortage to France is that of coke. There is very little coking coal available in France. Such French cokeries as existed in 1914 were destroyed during the war and have not been put back into operation. The blast furnaces of the metallurgical industry of Lorraine and Briey have been entirely dependent on Ruhr coke, the supply of which is now suspended with the result that the French today admit that "at least one half" of their blast furnaces have been forced to close down. The French have been buying some coke from Great Britain and Czecho-Slovakia, but the supply from these sources is expensive and limited.

So far as the Belgian coal supply is concerned, the latter's position is somewhat similar to that of France. However, the Belgians who are more inclined to business impulses than to patriotic impulses were not so sanguine as to the immediate outcome of the Ruhr occupation and therefore early in January made arrangements for the purchase of coal in Great Britain to meet requirements for "at least three months".

So far as the Italian supply of reparation coal is concerned,

the German Government desired to fill this programme of approximately 275,000 tons per month. Due to the Ruhr transport strike shipments on this account have been gradually falling off. Any Italian shortages must be covered by purchases of British or Czecho-Slovakian coal.

It is for France to say whether the ultimate gain is worth the present loss and the additional expenditure now involved. The time will shortly come when the bill of costs will have to be faced by the French people. Her statesmen will have difficulty in going on framing supplementary budgets to be met out of Reparations when it becomes plain that Reparations will not be forthcoming for France even on the scale possible before the Ruhr was occupied. The revelation of that position will be unpleasant for the French nation and may even force a change of policy and Government. In addition, it is bound to come home to the French nation even if the Poincaré policy of forcing the Germans to "lie down" is an accomplished fact, as we anticipate it will be.

The foregoing sums up the situation as we see it today. In our judgment, a period of fresh negotiations as between the French and Belgians on the one hand and Germany on the other will be forced by reason of Germany's coal shortage alone within the next four to eight weeks. We would not care to forecast at this time whether the British will then consider it an opportune moment to join in the discussion. It rests to be seen whether the Italians, whose position is now particularly favorable for action as a "go-between", will offer their advice as to the solution. The Belgians, being so closely tied in with the French Ruhr policy, are probably eliminated from their past position of "go-between" in Franco-German and Franco-British controversies. While there is some change of French public opinion's past assurance of a successful outcome of the Ruhr incident, recent and gradually growing views expressed in the French press indicate a certain falling off of this assurance. We, however, are very skeptical that French opinion will have sufficiently changed by the time the German "breaking point" is reached to assure any real basis for a reparation settlement at that time. In the meantime little good and much harm would result from any attempt to force a consideration of the whole question before International Economic Conferences, public Bankers Conferences, etc. However, in our judgment, it is interesting to note that in all probability a period of fresh negotiations will shortly be reached.

Faithfully yours,

The Honorable Benjamin Strong,
Governor, Federal Reserve
Bank of New York,
New York City.

J. A. L. Jr.

JAL/BD

JAMES A. LOGAN JR.

Paris, 16 February 1923.
18 rue de Tilsitt.

Personal and Confidential

My dear Ben:-

At this writing we find little to add to our last reports concerning the development and outcome of the Ruhr phase of the reparation question. The strength of the German "passive resistance" to the Franco-Belgian action in the Ruhr is very much greater than was anticipated by the French and Belgians. At this moment such resistance, backed by a rapidly developing German patriotic sentiment of unity, is apparently gaining strength. Disorders of a serious character have developed in the Ruhr area and, in our judgment, such disorders will grow in importance. The French and Belgians are, in effect, carrying on one of the greatest economic wars of history against Germany. The growing patriotic sentiment on both sides of this great controversy for the time being serves to strengthen the position of the leaders on the opposing sides and makes their position difficult of assault by the more sober minded. In our judgment, and for the foregoing reasons, any thought of the immediate fall of either Poincare or Cuno is illusory.

The French now announce that the "eleve" militarized railway personnel "which was sent into the occupied areas for a temporary period" and as "a practical method of instruction" must now be retained under the colors "until their place can be taken by volunteers". These and other similar items of press news have the semi-official significance of preparing the public mind, in certain eventualities, for at least "calling to the colors" special classes of French soldiery. Every additional pressure exercised by the Franco-Belgians to force the Germans to their will results to date in the stiffening of the German attitude with incident disorderly action on the part of the more radical German elements.

Notwithstanding the critical and important nature of the growing resistance, we remain of the opinion that Germany will eventually be forced to terms because the French and Belgians, in view of their public opinion, must go to any extreme to force such an issue.

We then come to the question as to what will follow this issue which we predict. Obviously, reparations will suffer. The French Government's financial position is giving no little concern. French exchange is weak---probably weaker than the actual financial trade balance of France warrants for the moment, but probably far from as weak as it will finally be, due to the cost of the Ruhr occupation and the growing French budgetary deficit. For the time being no German Government can approach

the French Government for terms and live. Similarly, Poincare, who is today supported by two general but as yet not clearly defined classes of French opinion, viz:

- (a) Those for the separation of the Ruhr and Rhineland from Germany; and
- (b) Those who feel that the occupation of the Ruhr is the method of assuring reparation payments,

can not make overtures and live. A virtual impasse is therefore created in which probably the only end is the complete surrender of Germany.

In the last paragraph of our letter of February 9, we made reference to the special position of the Italians as "go-betweens" in the present controversy. We are informed that the Italians, appreciating this position, within the last few days, through the intermediary of their Ambassadors in Paris and London, informally sounded out the reception that would be given an offer on their part of their good offices in an endeavor to bring the Germans and French and the French and British to an understanding. Their action was not successful, being probably a little too precipitate. M. Poincare is said to have intimated that any such action on the part of Italy "would be inimicable to Franco-Italian relations". The overtures of the Italian Ambassador in London, it is understood, met with no success: he being informed that "for the present at least the British Government is keeping out of the controversy". Endeavors of certain groups to force consideration of the controversy up to the League of Nations were fruitless. However, as this particular action has been fully reported in the press, there is no necessity for going into it in detail in this letter.

On February 11, the French and Belgian Governments individually communicated the following note to the German Government:

"By reason of orders given by the German Government and its representatives in the Ruhr Basin, as well as the difficulties of all kinds which have been systematically placed in the path of the Ruhr operation by the German Government, the French and Belgian Governments have decided as from February 12 to no longer permit the export into Non-occupied Germany of metallurgical and other manufactured goods from the occupied territory."

This action on the part of the French and Belgians was simply another "turn of their screw", the immediate effect of which was to further stimulate German patriotic feeling. The effects of this measure will soon be felt by the Germans, and perhaps have a more important bearing in forcing the inevitable "break-down" of Germany than the question of "coal starvation". In our letter of February 9, we referred to the German coal position. Additional reports confirm our estimate as to the number of days supply available. If there is an error in our report, it is probable that our estimate as to the number of days supply available is too conservative, and that, from a coal point of view

alone, Germany could hold out even longer than the period indicated. However, the shutting off of the metallurgical and other partially finished Ruhr products from Non-occupied Germany will shortly throw out of employment large contingents of labor engaged in the finishing processes elsewhere in Germany.

As to the effect of all the foregoing on the French financial position, it is of interest to note the tone of certain reports in French papers:-

L'Usine of February 14, for example, states that "deliveries from the Ruhr are still suspended. Coal deliveries about which there have been considerable publicity merely consist of a few trucks which are loaded and abandoned by German railway men. There is a great difference between the few thousand tons which may thus be attained and the 100,000 tons which should be sent to the French furnaces. In spite of specific declarations it would be foolish to expect any improvement before a long time. The consequences are that the French metallurgical industry will have to close down still more furnaces".

L'Oeuvre states that so far from the railways of the Ruhr operating as represented, all that has been accomplished is the control of the lines around the Basin. "In the interior of the Ruhr, the workers refuse to load the trucks. It is possible that some day or other the Allies will succeed in reorganizing the Ruhr but for the moment at any rate it is only the railway lines which encircle the district which are being utilized."

Other newspaper criticisms that are made are that "the French franc has greatly depreciated". "The French Treasury is obliged to emit short term bonds for 13 billion francs--a disguised loan--that taxation is to be increased in France and that the cost of the upkeep of the Rhineland the Ruhr armies will amount to 1 billion francs if the occupation continues for one year and according to official statistics the cost of living in France has already increased considerably."

The foregoing expressions only appear in a relatively small number of French journals. The majority, for the present at least, fully support the French Government and its policy.

De Lasteyrie, the French Finance Minister, announces that he "will shortly table a bill for the opening of credits in consequence of the Ruhr occupation". De Lasteyrie on February 13 in the Chamber of Deputies presented a bill authorizing the emission and renewal of short term Treasury bonds for 1923. It was adopted by 512 votes to 71. M. Lacotte, opposing the measure, said: "In the present desperate state of finance of the country, this appeal of public credit will be an abuse of confidence. The financial situation of France would be desperate if Germany did not pay and Germany would not pay unless French policy in the Ruhr was effective." In replying to this criticism, De Lasteyrie "denied that his proposal had any relation to the operations in the Ruhr". "The responsibility of the financial situation rested not upon the majority of the Chamber but upon Germany who had not fulfilled her engagements. The amount to be borrowed immediately would be reduced to a minimum having regard to the dearness of money". He would "wait until the money was obtainable

at a low rate of interest".

We don't attach undue importance to the foregoing but it nevertheless constitutes a phase of the whole situation which has its importance. The French Government yesterday presented a bill to Parliament authorizing a loan of 400 million francs to Poland. The purpose of this loan has not as yet been explained. It is generally assumed to have some connection with Polish military support of France under certain eventualities.

Faithfully yours,

John A. Lusk

JAL/AJG

The Honorable Benjamin Strong,
Governor, Federal Reserve Bank of New York,
New York City.

COPY - MD

EM

Green
Paris
Dated Feb. 17, 1923
Recd. 1:35 p.m.

Secretary of State

Washington

90, February 17, 3 p.m. B-861.

Miscellaneous reparation receipts January 22 to February 17th

Luxemburg coal 135,155 pounds credit Belgium proceeds British reparation
recovery act January 1923 711,000 pounds retained British against army
costs. Boyden.

HERRICK

WSB

JAMES A. LOGAN JR.

Paris, 18 rue de Tilsitt*
23 February 1923.

Personal & Confidential

My dear Ben,

The French and Belgians continue their great economic war against the Germans in the Ruhr. The German "passive resistance" as yet has not weakened and perhaps may even have gained some strength. While some few hundred carloads (10 to 12 tons each) of coal and coke have been delivered from the Ruhr into France and Belgium it is an insignificant volume, and the transport situation gives no promise of any increased volume in the near future.

The German coal administrator announces the purchase and delivery of approximately 1 million tons of British coal for Non-occupied Germany during the month of January. He further announces that "due to the improvement of German exchange deliveries of British coal for the month of February will reach a figure of 1.5 million tons".

French purchases of British coal during the month of January reached a total of about 1,300,000 tons; or in other words, some 300,000 tons over and above the normal British supply preceding the Ruhr occupation. It has been announced that the purchase of British coal on French account during the month of February will exceed the figure for the month of January.

The Belgians during the month of January purchased 450,000 tons of British coal, and have made provision for a similar quantity for the month of February. Practically all of this supply is abnormal, being the result of the stoppage of reparation coal deliveries from the Ruhr.

Italy purchased in the month of January round about 500,000 tons of British coal, which is about her normal supply from such sources, but in the month of February she will be forced to augment this supply. In the month of January, Italy actually received some 140,000 tons of reparation coal, but notwithstanding the German desire to continue the supply it has fallen off due to transport difficulties in the Ruhr.

The price of British coal since the occupation of the Ruhr has advanced on the Sterling basis some 15%. Due to the weakening of the French and Belgian franc and the Italian lire since the first of the year the cost of British coal when converted into these currencies shows an increased percentage over the actual pound sterling increase.

It is interesting in the foregoing connection to refer to the cost to France of the 300,000 tons of coal purchased from Great Britain in January in excess of her normal monthly demand of 1,000,000 tons. The 300,000 tons of British coal (at 15% increase) represents a cost of approximately 450,000 pounds sterling f.o.b. British ports; or in other words (at an average rate of say

71 francs to the pound during the month of January) some 35,000,000 French francs, not including the additional cost on account of transportation. For the month of February with the increased demand plus the further weakening of ~~the~~ French exchange, the cost on this account expressed in French francs will considerably exceed the January figure. By the same process of reasoning the Cost to Belgium for the month of January was approximately 50 million French francs, and due to the further weakening of her exchange, this figure will be considerably augmented for the month of February.

In arriving at the foregoing very rough factors have been employed. However, the figures are substantially correct and portray the financial importance of this indirect cost of the Ruhr occupation---a figure of cost which is not given publicity by the politician. On the other hand, it is interesting to note the profit accruing to the British in all of the foregoing transactions.

There has been some comment in the French press and uneasiness created by the demand of the French Government to French Parliament for credits on account of the cost of the Ruhr occupation. This was referred to in the last paragraph of the third page of our letter of February 16. The amounts granted by Parliament on this account were (a) 50,000,000 francs for army expenses for the months of January and February, it being stated during the hearings that the cost of the same army maintained in France would not have exceeded 15,000,000 francs, therefore the additional cost on account of the Ruhr occupation is 35,000,000 francs for two months; (b) 60,000,000 francs for transportation expenses incident to the Ruhr operation. While not stated definitely, the impression was given that this figure represented the cost for only the months of January and February; and (c) 5,000,000 francs for "civil administration" in the Ruhr on the basis of "one year's expenses".

The following is a résumé of certain portions of Poincaré's statement before the Committee of Foreign Affairs of the Chamber on February 19, 1923, concerning the situation in the Ruhr:

"We occupy 2,800 square kilometers in the Ruhr in which the annual production of coal reaches a figure of 80 million tons. In the same region, but outside our zone of occupation, there is approximately only 500 square kilometers left which produce only 8 million tons of coal annually. We control 14,200 coke ovens out of a total of 14,500. The total population is 3,500,000 inhabitants; 3,000,000 are included within our customs cordon, and of the 500,000 miners, only 50,000 are outside the limits of our control; in other words, we control 9/10ths of the production of the Ruhr. The military organization is placed under the firm and competent direction of General Degoutte, who possesses the very highest administrative qualities. By his side functions a mission composed of approximately 60 engineers, French, Belgian and Italian, to which will be added some English engineers, all placed under the orders of M. Coste. It is not possible for this organization to actually carry on the exploitation of the

"Ruhr, but it is there to control such exploitation. The German resistance which has increased in the last few days has manifested itself by acts of sabotage and has provoked on our part legitimate sanctions. In this connection 283 higher functionaries of the Rhineland and 50 of the Ruhr have been expelled notwithstanding the protests of the German Government. Others have been condemned by court-martial and punished by imprisonment. The control of the railroad system of the Ruhr gives to those holding such control the key to the richness of this industrial region. Before our occupation 580 passenger trains and 620 freight trains, with a personnel of 100,000 railway men circulated daily in this region. We have only 9,600 railway men and at this time they are only able to carry on a most limited movement of traffic. However, in case of need, army engineer troops are available to furnish all the necessary personnel. One can easily understand that with strikes and acts of sabotage and the difficulties of every nature which have been encountered, it will not be possible before some time to restore normal traffic. Up to the present approximately 1,000 carloads of coal have been brought into France from the Ruhr".

We feel it important to report that in personal conversation with the Italian Delegate on the Reparation Commission today we were informed that the total number of Italians participating in the Ruhr operation is limited to two engineers. So far as the "British engineers" referred to by M. Poincaré are concerned, the British tell us they have no knowledge of such fact, though some non-governmental engineers may have been employed in the service of the French and Belgians.

The strike in the Saar Basin continues with the result that the coal supply from that area remains completely suspended. Miners' strikes have occurred in various French coal areas but notwithstanding reports which have been given some prominence in certain quarters of the press, our best information shows that these strikes have been minor in importance, purely economic in character, and are now completely over.

While in the foregoing portions of this letter we have laid some emphasis on the difficulties and economic cost of the Ruhr affair, we nevertheless repeat what we have said in our past letters, viz: "That Germany will eventually be forced to terms because the French and Belgians must go any extreme to force such an issue." We are also of the opinion that the Franco-Belgian action in occupied Germany will have equal effect, if not more, in forcing the Germans to terms. The French and Belgians are now exerting every effort to perfect their system of customs control of the occupied area in the hopes that by so doing some money will be forthcoming to apply to the credit side of their Ruhr ledger.

There is much talk of creating some new form of money for the occupied area so as to overcome the obvious present and future monetary difficulties of the situation. The practical application of any such measure in our opinion presents so many difficulties that in the remote chance of such a plan being tried out the results will be far from those expected.

We enclose herewith as Exhibit A an opinion prepared by Mr. Fisher-Williams, K.C. on the Application and Operation of Paragraphs 17 and 18 of Annex II, Part VIII of the Treaty of Versailles. Mr. Fisher-Williams is the British member of the Legal Service of the Reparation Commission. This opinion presents the British views as to the interpretation of Par. 18 of the above referred to Annex. This opinion is confidential, has not been presented officially to the Commission, and was presumably drawn for submission to the British Government.

The Franco-Belgian actual application of their interpretation of the above referred to Par. 18 (similar provisions to which appear in the Central European Peace Treaties) causes concern in view of the possibilities it presents for stirring up trouble, in Central Europe; in particular as regards possible application to Hungary. The situation with Hungary on the one side and Czecho-Slovakia, Serbia, Roumania, and Italy, on the other, from time to time shows evidence of certain strain. The thought naturally occurs to these latter "Allied Powers" that, if France and Belgium can legally carry out sanctions against Germany in case of "a report of default", why should not they in turn push for "report of default" against Hungary, and then apply such "sanctions" as might be to their individual interests. So far as the formal report of default is concerned, this can only be made by the Commission with the Common Delegate representing the Succession States having one vote. However, in view of the interpretation as to "sanctions" taken by France under the Treaty of Versailles, it would present some embarrassment for the latter not to support a similar interpretation in the application of the Treaty of Trianon. It might then be embarrassing for Italy not to support the French and Common Delegate if a report of default were forced. There exists considerable technical basis for a report of default so far as Hungary is concerned. The foregoing is only a possible eventuality, which under any circumstances would hardly eventuate unless the French and Belgians are more successful than they have been to date in their independent action against Germany, but it is one, however, well worth bearing in mind.

It is interesting to watch the development of French opinion concerning the Ruhr occupation, and particularly the difficulty encountered by M. Poincaré in straddling the different views, and thus uncommitted to any particular thesis. In our last letter we referred to two broad groups of French opinion, namely:

- (a) Those for some form of separation of the Ruhr and Rhineland from Germany as a method of assuring future security, and
- (b) Those who felt that Germany can pay reparations and the only method of assuring such payments is to force the industrials "to make their foreign hoardings forthcoming" by intimidation through the Ruhr occupation.

There is another group: the French industrials, though while small in number, nevertheless have a most important influence on French policy. It is felt the latter desires to force the German industrials, through the Ruhr occupation, to give them participation in Ruhr industry. Official French proposals submitted to the Commission, as well as the press, contain references to ultimately forcing the German industrials to give French industry a "25% participation". It is interesting to note the importance of the term "A 25% participation in German industry", and this particularly in view of the American idea of the limited influence such minority holdings give. We are informed that under the German corporate law a 25% holder, though a minority holder, has veto power on all the broader phases of corporate action; in other words, while the majority holders control the general detailed administration the broader phases of the corporate constitution and its actions cannot be changed without the agreement of the "25% holder". We are informed that this procedure was originally adopted so as to limit the field of action of large finance. Practically however we are informed that it has worked in just the opposite direction, as it has permitted large finance to spread its influence over a more extended area of economic activity for by holding only 25% of the capital of various interlocked associations, it has given a virtual control over all to the large operator. It is understood the French industrials' motive is to force the German industrials to concede this position to the Frenchmen.

As a reflection on the possibilities of the present French fiscal situation on the French monetary situation, it is interesting to note the continued references during the last few weeks to the possible increase of the discount rate of the Bank of France from 5 to 5 1/2%. While the discount rate has not yet been raised, we nevertheless gather from various sources that such a raise is being seriously considered. The question was brought to public attention by the Government recently raising its rate of interest by 1/2% on its borrowings on short term Treasury bills. If the Bank of France's discount rate be actually raised, a new phase of the French currency position comes up. If the French exchange continues to weaken, or even remains where it is today, prices will advance to meet the spread. Such advance of prices is occurring today with the result that there is a modest business boom on in France at this writing. Such boom carries with it a demand for greater credit which will continue for some time, and which will increase in importance if the franc continues to fall. This will result in creating a demand for an increase in the circulating medium which in turn may ultimately force inflation. The Bank of France, which has always pursued a most conservative policy, will combat inflation, and to this end may be tempted to exert all its influence to further increase the discount rate. If the French Government's budget were balanced this policy could be followed. However, with the French budget out of balance, and with the growing demand of the Government itself for currency to meet its obligations, an interesting situation would be created. You could not go a long time with the Bank of France continually raising the discount rate and with the French Government at the same time increasing its rate of interest for borrowed money to cover its deficits. The Government it would appear, would then be faced with two alternatives:

- (1) To let the Bank of France raise its discount rate successively, the Government at the same time paying more & more for the money it borrows, which in turn

would result in increasing the Government's deficit; or

- (2) To let the Bank of France issue bank notes to face the demand from the business world, in which case the full force and consequences of unlimited inflation would be inevitable.

The situation would therefore be that the fall of the franc would not be a result of inflation, but that it would provoke the inflation which would then prevent any substantial recovery in the value of the franc at the time the operation was commenced. The above observations do not take account of possible changes in the fiscal system by which revenues might be increased by an augmentation of taxation, or by the accelerated collection of taxes or by foreign loans to temporarily tide over the situation.

While attaching no special importance to the foregoing at this time, it nevertheless presents a real difficulty facing the French Government in its present financial position. The Bank of France will combat by all its power inflation; on the other hand, the French public in its ignorance of the real dangers of its financial position will so influence the politician as to make increased taxation extremely difficult. From all indications it appears that the French Government will have great difficulty in raising any foreign loans as a temporary palliative to the solution. With all these conflicting influences it will be interesting to see the outcome.

It is interesting to bring out one phase of the present Belgian financial situation which has just reached us and which is not generally understood. Upon the signing of the Armistice there was approximately 6,000,000,000 German paper marks in circulation in Belgium. These marks were taken up by the Belgian Government at par and have since been held in the portfolio of the Belgian Treasury as a Governmental asset. Against such German marks counter-values in the shape of Belgian Treasury Bills to approximately one-half the then value of the paper marks were issued, and against the remaining one-half Belgian bank notes were issued. The actual value of the 6,000,000,000 German paper marks was at that time about 3,000,000,000 gold marks; or in other words, at that time approximately 3,750,000,000 Belgian gold francs. In the accounts of the Belgian Government there was a liability of 7,500,000,000 Belgian francs against this supposed gold value asset of 3,000,000,000 gold marks. Today, there remains unchanged the liability of 7,500,000,000 Belgian paper francs, while the asset of 3,750,000,000 Belgian gold francs has practically disappeared, with the result that the net debt of Belgium has increased by 3,750,000,000 Belgian francs. In other words, the value of cash payments and deliveries in kind on reparation account made by Germany to Belgium to date totalling approximately 1,000,000,000 gold marks just about offset Belgium's loss on account of the more or less worthless German paper marks held in her Treasury portfolio.

Faithfully yours,

JAL/BD
1 encl.



The Honorable Benjamin Strong,
New York City.

JAMES A. LOGAN JR.

Paris, 1 March 1923.
18 rue de Tilsitt.

Personal and Confidential.

My dear Ben:-

The situation in the Ruhr remains in about the same state as shown in our previous reports with no signs as yet of either German or French weakening. A few additional carloads of coal and coke have been taken out by France and Belgium, but the volume is insignificant. The British maintain their stand against Franco-Belgian interference in the zone of the British military occupation. Certain concessions have been made by the British, in the zone by authorizing the use of a special short line of railway for French-Belgian military movements and for the movement of any coal procured in the Ruhr district. The French press remains critical of the British attitude.

Rumors of the opening of negotiations looking to a settlement of the Ruhr controversy have been given some publicity in the French press recently. Certain Swiss and Dutch individuals have been in Paris offering their good offices as intermediaries between the German and French Governments. M. Dubois, the Swiss banker of Bale, a personal friend of President Millerand and M. Poincare, in addition to standing well with the Germans, passed a few days last week in Paris endeavoring to find some basis for reopening negotiations. It will be remembered that M. Dubois was one of the Committee of Experts invited by the German Government last November to advise the German Government on financial matters, and in this capacity sat with Messrs. Vissering, Keynes, Cassel, Brand, Jenks, etc. It is understood that M. Dubois' efforts in Paris were entirely unsuccessful and that he has now returned to Switzerland.

We feel that the activities of these Swiss and Dutch gentlemen were used by the French Government in stiffening the exchange position, for rumors of possibilities of their efforts were given a very considerable publicity in the French press--an importance which was for the time being entirely unwarranted.

There has been considerable discussion in the French press which shows some reflection in the British press, concerning the proposed "New European or Latin Bloc" in European politics of France, Italy and Belgium. Our judgment is that this discussion was largely inspired for the purpose of "frightening" the British and for "reassuring" French public opinion. In our judgment a bloc of such character for the present at least, is not a probability. In this connection, it is of interest to refer to certain recent informal con-

versations with various Italian and Belgian friends who happen to be representatives of their governments in Paris.

Mr. Bemelmans, who is Assistant Belgian Delegate on the Reparation Commission, and who is at the same time one of the right-hand men of M. Theunis, the Belgian Prime Minister, when speaking of M. Theunis' recent attitude made the following general personal and informal statement:-

"M. Theunis was and is opposed to the Ruhr occupation and would have done everything possible to have kept out of it. The Bonar Law memorandum and ultimatum presented to the January conference of Prime Ministers in Paris, however, forced his hand and made him join up with the French. In principle, M. Theunis was in agreement with all the broad lines of the British program as set forth in the Bonar Law memorandum. However, there are three points in this memorandum which made his support of this program impossible, viz.,

(1) the brutal British demand for the suppression of the Belgian priority;

(2) the proposal that the International Financial Control Committee, to be set up in Germany, be presided over by the German Finance Minister, who, at the same time, had the deciding vote in the event of a tie, and

(3) certain details of the proposed debt adjustment scheme obviously unfavorable to Belgium.

M. Theunis was and is prepared to negotiate a compromise on the Belgian priority phase, but such negotiations and compromise must be effected in such a way as to be digestible for Belgian public opinion. Had M. Theunis accepted the Bonar Law ultimatum terms, he would have been thrown out of office by Belgian public opinion even before he had completed the journey home from Paris to Brussels. As regards the German Finance Minister presiding over the proposed Financial Control Committee in Berlin and having the deciding vote, the acceptance of such terms by M. Theunis would have been revolting to Belgian public opinion and made his position untenable. So far as debt adjustment is concerned, this had its equally dangerous phases with regard to Belgian public opinion. M. Theunis cannot understand why Bonar Law in the interval between the London and Paris conferences of Prime Ministers, did not show him a copy of his proposals. M. Theunis had no knowledge of them until they were actually laid on the table in Paris. Had he been given an opportunity to study them, he feels sure that he could have pointed out the obvious weaknesses of detail and that Bonar Law would have been the first to correct them, with the result that Belgium would not have been forced

"into the position which she is in today and could therefore have restrained the French."

As concerns the Italian position, the Marquis Salvago Raggi, who is now the Italian representative on the Reparation Commission, and who before was the Italian Ambassador to Paris, in which latter capacity he participated as one of the Italian Delegates at the Peace Conference, informally said:

" Italy has had many bitter experiences during the war and since the Armistice, with the result that the confidence of the Italian Government and Italian people in her late allies whether they be British or French has been rudely shaken. In the first place, we were more or less forced into the war for our best national interests would have kept us out. We were told at the start and our people were given to understand that Russian military pressure against the Austro-Hungarian Empire would be maintained to such an extent as to make the military effort demanded of us one of minor importance. On the other hand, after we got in, the Russian pressure crumbled, due to unexpected bolshevik tendencies, with the result that our military effort in place of being one of minor importance developed into one of major effort. Left practically unaided in this military situation, we were forced to defend ourselves, not only from the full weight of the Austro-Hungarian armies but in addition against very substantial German reinforcements with very little Allied support of either a moral or practical character. This, however, was one of the chances of the war and though unexpected was nevertheless accepted by the Italian people, though the failure of allied support during the critical military periods still causes bitterness. Then followed the Armistice with the Peace negotiations. We were all seated around the table considering the Turkish phase of the peace negotiations. Had the French and British at first proposed to preserve the integrity of the old Turkish Empire, we could have had no just basis for complaint. On the other hand, the British and French inveigled us into sending military contingents into certain sections of the Turkish territory simultaneously with their own, on the theory that large portions of the Turkish territory were to be divided equitably between the three of us. We then discussed and reached agreement as to the particular areas to be allotted to each reaching a more or less satisfactory accord on this phase. However, very shortly after this under direct Franco-British pressure, we were forced to get out of Turkey entirely and relinquish all our claims to territory there. Then followed the consistent blocking on the part of both the British and French of our national aspirations concerning certain territory on the east side of the Adriatic, in direct contravention

of previous solemn accords on such account. We were always turned off by the British and French with the general statement that while they themselves had taken enemy territory, they had done so reluctantly as mandatories of the League of Nations and only in such places as adjoining national possessions, or especially important interests made the exercise of such mandates on their part more effective and economical from the League of Nations' point of view. Now all of the foregoing is thoroughly understood and appreciated by the Italian people who have no illusions left as to the real meaning of either British or French friendship. It is not possible to draw any line of demarcation showing the degree of treatment accorded Italy by France and Great Britain. The Italian people are thoroughly disillusioned. Quite recently our national sensibilities were hurt by the tone and certain rather detailed and relatively unimportant phases of the Bonar Law memorandum or ultimatum of January last. This forced us for the time being into the Franco-Belgian camp. However, we do not consider ourselves as definitely involved in the Ruhr operation. Our entire participation with the French and Belgians in the Ruhr is today limited by the presence there of two engineers. There was a proposal to increase this representation by sending one additional man, but this was opposed by the Italian Government. In view of all the foregoing, the Italian Government and the Italian people feel that their best interests will result from getting to work, minding their own business by looking exclusively after their own selfish interests and keeping out of all types and forms of European alliance. In my judgment, which I know is shared by all influential Italian thought, any Italian Government that today advocated Italy lining up by treaty or otherwise in any so-called "European or Latin Bloc" would promptly fall in the face of Italian public opinion. Our past treatment by the Allies as I have just outlined show the real reasons for our somewhat selfish policy which I know the British refer to as "Passing the Hat."

The foregoing frank and informal statements of well informed Belgian and Italian representatives throws at least some question on the importance to be attached to the recent press reports concerning the proposed formation of a "Latin Bloc" in Europe today.

In a separate letter under even date we have shown some general considerations regarding the French financial situation. It is therefore felt to be of interest to present some considerations of the German position as we see it today with particular reference in this letter to its relations to the Ruhr occupation. The actual German financial position is dominated by the question of confidence. It is mainly the lack of confidence which provoked the fall of

the mark. The German economy has adapted itself to the continuous depreciation of its currency with the result that such continued depreciation does not have the grave effects at the present time that it had when the mark first began to depreciate. If we consider the public finances of Germany, the fall of the mark has had the effect of suppressing the debt. The gold value of the German Debt practically disappears and this repudiation of the internal debt constitutes one of the elements which would easily allow the restoration of the financial equilibrium of the country if confidence in its future were re-established.

If we contemplate the ability of the German Government to face the financial consequences resulting from the Occupation of the Ruhr, we have to consider that in fact it has no difficulty to find the money it needs: it has only to make it and may continue to do so successfully for a considerable time. The consequences of that policy will therefore in the main only be to accentuate the fall of the German currency. It would appear at first sight that the continuous depreciation of the mark would at the end prevent the German industrials from buying abroad the raw materials and coal they need. In reality most of them have taken debtor's position. Their capital is invested in real properties or foreign currencies. They are working with money borrowed on the domestic markets. Under such conditions they are not greatly injured by the fall of the mark so long as they can export a sufficient amount of their output to purchase raw materials, foodstuffs, etc. The present difficulty for these industrials is really to find the raw materials and coal they need rather than the question of how to pay for them. The people who have and will continue to suffer from the depreciation of the mark are the numerous small holders of marks or of credits in marks. The German "rentier" as such is already wiped out and his interests may for the future be neglected.

The measures taken recently by the Reichsbank in restricting the advances upon foreign currencies have had the effect of obliging the holders of such currencies to sell them against marks. The result was a rapid improvement of the mark owing to the demand. The Reichsbank was thus able to increase its stock of foreign currencies. We must, however, consider that such an operation has had the effect of using what we might call "for war purposes" a part of the reserve of capital which could have been devoted, had a more economic policy been followed, to the restoration of German finance and the payment of reparations.

If confidence in the future of Germany could be re-established by a business-like treatment, both on the part of Germany and the Allies, of the questions concerning reparations and enforcement of the provisions of the Treaty, the position would be quite different. As was the case in Austria, the holders of marks expecting an improvement of their currency would cease to buy foreign currencies and keep their marks. The holders of foreign currencies expecting a fall of their marks would sell them to invest in the country, not in real properties because the price of these in case the mark would improve would diminish, but would invest them in loans. To the actual scarcity of money on the German market would succeed a period of abundance and the Government would be able to borrow under most favorable conditions instead of being forced as today

J. A. L. Jr. To: Governor Strong - Personal & Confidential

Page 6.

to resort to the printing press. Under these conditions, foreign markets would also be in a position to loan money to Germany for exactly the same reasons. If the mark were stabilized in that way--and the example of Austria shows that it is not impossible--the real position of Germany would be seen. To the fictitious prosperity today would naturally succeed a period of depreciation in business, Germany would know the same difficulties which England and Czechoslovakia have had to face during the last 18 months, but the result would be that we would then be in a position to make a just appreciation of Germany's real capacity.

Faithfully yours,

J. A. L. Jr.

JAL/AJG

The Honorable Benjamin Strong,
Governor, Federal Reserve Bank of New York,
New York City.

JAMES A. LOGAN JR.

Paris, 2 March 1923.
18 rue de Tilsitt.

Personal & Confidential.

My dear Ben:-

In our past weekly letters we have made reference to certain phases of the French Government's budgetary situation which perhaps convey its more pessimistic aspects. A useful purpose will therefore be served by presenting some general optimistic considerations. Following the French Government's policy when dealing with their Budget question, we leave out of consideration the all important factor of the repayment of the French Government's debt to the United States and Great Britain.

Our intention is to present a point of view with regard to French finances based upon the facts of reconstruction finances, of the public debt and budgets and of the volume of French savings, as well as upon the traditional methods employed by the French Government in the last century with respect to the use of these savings. This point of view is optimistic only in that it shows some possibilities of the situation, but is by no means intended to be any prophecy on our part that the possibilities will be realized.

The French budget is now before the French Parliament. A decided opposition to increased taxation is manifest. Such increased taxation is obviously an essential factor to ultimate financial rehabilitation. The costs of the Ruhr occupation, which we consider will be a definite either direct or indirect loss to France, are glossed over by the French Government by the general statements of such charges figuring on "special accounts recoverable from Germany", therefore without necessity of such charges being included in the budget. The position of other Allies entitled to reparation in any credits accruing through forced collections in the Ruhr occupation, is not clear. The French have made a definite statement that their own expenses will be a first charge in anything received. While there is no official announcement to this effect, various papers intimate that the countries which do not share in the effort to collect are not to share even in the net receipts of collection.

There is some uneasiness in parliamentary circles due to the export of capital from France, which crystallized in definite proposals for legislation contemplating a more strict supervision of such transactions. This was attacked vigorously by the French Finance Minister who maintained in effect that measures of such a character were entirely useless and indeed harmful to business and that the only method of securing protection against the dangers of the export of capital, was through the medium of international agreements. The French Finance Minister said that the existing laws on this subject hindered French commerce and should be abrogated. In this view the French Finance Minister was supported by M. Bokanowski, the Rapporteur-General of the Finance Committee in the French Par-

liament, who said:-

" If, in spite of the present law which hinders French commerce, which hinders the operations of our stock brokers and which leave us in times of great speculations on the exchange, almost without defence, if, notwithstanding this we have to fear the evasion of capital, I can no longer understand it. I originally associated myself with the Minister of Finance, when, in spite of the opposition of eminent men having long practice in financial questions, he demanded the prorogation of this exceptional law, of this war-time law which hinders the French to provide themselves freely with foreign currencies with which they can help themselves at times when our money undergoes an assault on the international markets, this law which leaves us without defence because deprived of exchange values we cannot reply to speculations with counter speculations. I originally associated myself with the Minister of Finance because I thought this law, so bad in many ways, served at least the purpose of hindering fraudulent evasion of French capital. If the Minister of Finance now thinks that it does not even serve this purpose, what reasons can there be for opposing its abrogation?"

These observations, coming from such authoritative French Government sources, have their amusing side, being diametrically opposed to the French thesis concerning the measures which France has always pushed Germany to apply.

We now resume our consideration of the French financial position. The total French public debt at the end of 1922, exclusive of sums owing to the British and United States Government, was 260,000,000,000 francs, the external debt (other than to the British and United States Governments) being taken at current rates of exchange. This sum of 260,000,000,000 francs includes all the floating debt, all of the advances of the Bank of France to the State, all reconstruction and Credit National Loans, the capital value of all annuities paid by the Government either to railroads or to persons having suffered war damage and in general all the debt of France excepting the amounts owing to the Governments of Great Britain and the United States.

Increase in the debt will take place:

- a) to complete the reconstruction of the devastated regions, and
- b) to cover the deficits in current expenditures including interest charges on debt incurred to finance reconstruction, as well as all war pensions, etc.

The reconstruction has been carried out, first by the State directly on its own account, and second by payments being made to persons who have suffered war damage (sinistres). The reconstruction carried out by the State on its own account has been practically completed. This consisted of filling in the trenches and shell holes, clearing the land of barbed wire, unexploded shells, etc.,

the rebuilding of the highways, railroads and canals, the reestablishment of the telephone and telegraph services and the reconstruction of Government buildings. The total amounts already paid, or to be paid, to the sinistres can now be very closely estimated and are known to be about 83,000,000,000 francs, of which about 43,000,000,000 francs have been paid. There remains thus 40,000,000,000 francs to be paid but of this amount there is probably 10,000,000,000 francs that will drag along for many years some of which will never be paid at all owing to the provisions of the law on war damages which requires that the sinistres shall actually rebuild the property destroyed in order to receive the whole of their war damage claims. The balance remaining to be paid out on capital reconstruction account within the next few years amounts to about 30,000,000,000 francs and this can, it is estimated, be completely financed out within a period of from 2 1/2 to 3 years, or say by the end of 1925. This is assuming that the French nation can finance this capital expense at the rate of 11,000,000,000 francs to 12,000,000,000 per year although in past years the rate has been greater. All these figures refer purely to capital outlay without counting interest upon loans issued to finance these payments.

The public debt may therefore be expected to increase on account of reconstruction expense by about 30,000,000,000 francs in the next three years. In addition there are the annual deficits in current expenditures both on account of the ordinary budget together with supplemental credits, and the special budget, the latter including interest on Credit National and Reconstruction loans and war pensions as well as the expenses of the Ministry of Liberated Regions. If these deficits be put in at 3,000,000,000 francs for the general budget and 7,000,000,000 francs for the special budget, an amount of 10,000,000,000 francs per year must be allowed for to be financed by loans, or say another 30,000,000,000 francs by the end of 1925.

The above increases in the public debt should bring the total French public debt to an amount of say 320,000,000,000 francs by the end of 1925.

The amount of borrowing which the French Government will have to do each year may be expected to decrease by more than half once the reconstruction financing is done.

In 1922 the French Government borrowed roughly 20,000,000,000 francs of which more than one half was for reconstruction purposes. About the same will be true for 1923 according to present estimates. This rate of borrowing is a heavy load upon France but is still perhaps within the limits of safety if it be taken into consideration that the total annual savings in France are estimated to be roughly 30,000,000,000 francs or more, depending upon the general business conditions. When these government borrowings are reduced to say around 10,000,000,000 francs per year by reason of the completion of the reconstruction program, the additional savings of the French people over and above the amounts taken by the Government will be very much increased and properly handled, this situation should enable the French Government to drive down the rate of interest upon its debt. The history of the conversions which took place during the last century by which French rentes were replaced by new rentes having a lower interest rate is extremely instructive. All of these operations were carried out on the following principle: Once the interest yield of French rentes as traded in in the

market begins to decline, the French Government, playing upon the fears of the market that a further decline in interest yield will take place, offers a new rente upon a lower interest basis but guaranteeing the holder for a period of 10 years or more against any further conversion. Thus it proved possible in the last century for the French Government actually to anticipate declining interest rates and to reduce the charges on its public debt prior to the full decline in interest yield being reflected in market prices. This was only possible due to the large surplus saving power of the French people and if the economic situation of France holds up it is entirely possible that with the completion of reconstruction finance this same situation will be reproduced under the influence of the mass of public savings in excess of the part taken by the Government.

The importance of the above considerations rests in the fact that the interest charges on the public debt constitute, and upon the completion of the reconstruction program will, even to a greater extent, constitute so large a part of the annual budgets of the French Government. The charges on the existing debt are somewhat less than 12,500,000,000 francs not including appropriations for amortisation of principal. With the increase in the debt that must necessarily take place during the next three years probably at high rates of interest, it is not unlikely that the total interest charges may amount to 16,500,000,000 francs for 1926. This figure will likely be roughly about 1/2 of the total French budget if there be allowed 4,000,000,000 francs for pensions (including pre-war pensions), 5,000,000,000 francs for military, naval and aviation expenditures and 6,000,000,000 francs for civil expenditures.

In order to carry this total burden of 32,000,000,000 per year, it must be supposed that the ordinary revenues of the Government can be increased from the present figure of about 20,000,000,000 francs to at least 25,000,000,000 francs per annum. It is true that the savings in interest through optional conversions of the public debt into lower interest bearing debt could begin to come into play, and over a period of several years it is conceivable that the average interest on the entire public debt which should amount to more than 5% at the end of 1925 could be reduced to 4% representing a saving of nearly 4,000,000,000 francs per year. It is evident that there must likewise be a rigid schedule of economies in all departments and that political conditions should be such that the military expenditures could be kept within the appropriations provided for in the general budgets, viz., 5,000,000,000 francs without recourse to supplemental credits such as have been necessary for the maintenance of the army of the Levant and will be necessary for the troops in the Ruhr.

Even as above optimistically outlined the French budget will not be completely balanced. Assuming revenues of 25,000,000,000 francs an average of 4% interest on the debt, political conditions which will keep military expenditures within 5,000,000,000 francs and a schedule of civil economies which will reduce expenditures from the present figure of 7,000,000,000 francs to 6,000,000,000 francs there will still remain a deficit of 3,000,000,000 francs. The possibility of receiving something from Germany is undoubtedly still entertained in Government circles such receipts being considered essential to the balancing of the French budget. If Germany can be brought to making an annual payment to France of \$200,000,000 per year, this at current rates of exchange would cover the remaining deficit of 3,000,000,000 francs. This deficit of course would be aug-

mented not only if the schedule of economies and of increased revenues failed to be carried out but also if it failed to be carried out in time to prevent much additional borrowing after 1925.

The foregoing in our view presents the basis of the present policy of the French Treasury looking to the eventual rehabilitation of French finance. Even accepting all points of this optimistic presentation of the French Government's financial situation and policies, there develop two most interesting points which it is believed important to bring out:-

- a) The French budget cannot be balanced without substantial reparation payments by Germany to France (i.e., \$250,000,000 per year);
- b) No resources whatsoever from which to meet indebtedness due the Governments of the United States and Great Britain unless derived from German reparation payments to France in excess of \$250,000,000 per year.

In connection with (b) above, it is interesting to note that such relatively obscure references as are made to the United States debt in the French Treasury documents show the total figure at different intervals at the capital amount, without any increase on account of accruing interest. On the other hand, the British debt, when similarly reported at different intervals, shows a gradually increasing total due to the addition of interest. We understand in this connection that while our French obligations are represented by Five per cent French notes, nevertheless, Mr. Rathbone, when here, had some discussion with the French Treasury concerning the permanent obligation to be handed the American Government. No conclusions were reached on the question of the interest rate, and it would appear that the French use this as a reason for not adding accrued interest to the capital amount in their records, notwithstanding the fact of our actually holding their five per cent notes. We report this latter phase for what it is worth.

Faithfully yours,

J. A. L. Jr

JAL/AJG

The Honorable Benjamin Strong,
Governor, Federal Reserve Bank of New York,
New York City.

JAMES A. LOGAN JR.

Paris, 18 rue de Tilsitt.
8 March 1923.

Personal & Confidential

My dear Ben,

I forward herewith nine letters addressed to you on the following dates, viz:

- ✓ January 19th,
- ✓ January 26th,
- ✓ February 2nd,
- ✓ February 2nd,
- ✓ February 9th,
- ✓ February 16th,
- ✓ February 23rd,
- ✓ March 1st,
- ✓ March 2nd.

I apologise for the delay in forwarding these letters. However, for certain reasons which I will explain when I see you, I felt it inadvisable to put them in the mail, during the past somewhat tense period. I am forwarding them by a friend leaving for America who will send them to you upon his arrival in New York. I have hesitated somewhat in sending you the older letters, but decided to do so as they show the development of the situation and are perhaps necessary to its appreciation today. From now on I will continue sending you a weekly letter by the regular mail.

We have been having very interesting times over here recently and I gather from press reports from America that there was some interest in us at home during the month of January.

I have heard that you have been a little knocked out and that you are taking a short vacation in Florida. I envy you and wish I could have been with you.

Eliot Wadsworth is here with his nice wife and we were all glad to see him. Confidentially, I feel that his official mission at this particularly critical moment is somewhat inopportune. The Reparation Commission has no money. Germany cannot find any now and if we push for participation in past payments to the Allies, we are not going to get anything and will simply stir up trouble. Our mistake has been that we did not push at the time past receipts were distributed to the Allies. If we had done so we would probably have received substantial payments and I believe the whole atmosphere in Europe would have been improved. I would have fought from the beginning for all our rights, not that I would have expected to receive much but I would have made my place at the council table one of importance. On the other hand, we contented ourselves

with filing half-hearted reserves with a consequent loss of influence in the general policy and with grave danger of now stirring up public feeling at home and abroad on account of our delayed importunities. Eliot, I know, appreciates this situation and the delicacy of his task and will do everything he can to prevent damage.

Let me hear from you. I have not received one of your wise letters for a long time and miss them much.

Faithfully yours,

James A. L. Jr.

JAL/BD
9 encls.

The Honorable Benjamin Strong,
Governor, Federal Reserve Bank of
New York, New York City.

*P.S. Hope that after your Florida
trip you are feeling once
more your good old self.
JAL*

JAMES A. LOGAN JR.

Paris, 18 rue de Tilsitt.
9 March, 1923.

Personal & Confidential

My dear Ben,

In previous reports concerning the Ruhr occupation we referred to some specific instances of the indirect cost of this operation to France and Belgium. We, however, omitted reference to other important items of indirect cost affectint the general French financial balance. In this letter we intend to present some considerations and conclusions connected with the question of indirect cost.

As already reported, the French Government has so far confined itself to asking Parliament for the following credits on account of the Ruhr occupation for the months of January and February:

5,000,000	Francs	for the maintenance of civilian missions,
50,000,000	"	for the maintenance of troops (35,000,000 of which was announced as being in excess of the maintenance cost for the same number of troops on French territory), and
60,000,000	"	for transportation expenses.

The foregoing is the direct governmental contribution to cost, which we can assume as being some 50,000,000 francs per month.

It is of interest to present some details concerning the indirect cost to the French metallurgical industry, which is today virtually in a period of crisis. As a preliminary, we assume an average monthly delivery of reparation coal to France prior to the Ruhr occupation of 1,000,000 tons. The following figures show the total receipts of German coal and coke by France, Belgium, and Luxembourg, as published by the Office des Houillères Sinistrées:

"Before the Occupation.
Jan. 1 to 9.

Ruhr mines	57,365 tons of coal
"	135,795 tons of coke
Aix-la-Chapelle mines	3,901 tons of coal
"	9,410 tons of coke
Cologne mines	16,841 tons of lignite briquettes.

After the Occupation.
Jan. 10 to 15.

Ruhr mines	Nil
Aix-la-Chapelle mines	1,729 tons of coal
"	9,800 tons of coke
Cologne mines	2,882 tons of lignite briquettes"

There are no figures for January 15 to 25, but the Office des Houillères Sinistrées admits the German estimate that the "Allies did not receive more than 7,500 tons of coal". As to coke, the Société des Cokes des Hauts-Fourneaux received the following quantities:

"January 1 - 12	152,500 tons
" 12 - 15	16,700 "
" 16	4,600 "
" 17	1,394 "
" 18	603 "
" 19 - 20	Nil"

Lack of coke constitutes the principal element of the crisis now being passed by the French metallurgical industry. The first effect of the non-receipt of coke was to stop a number of French blast furnaces in blast on January 10. At first the metallurgical works apparently did not want to put out their blast furnaces, preferring to dampen them down in the hopes that deliveries would recommence. The French today admit that "over one-half of their blast furnaces are out". It is interesting to refer to the following quotation which appeared in the press about one week ago:

"In Meurthe-et-Moselle there were 45 blast furnaces in blast on January 1. (Longwy 4, Micheville 3, Villerupt 2, La Ghiers 2, Hussigny 1, La Providence à Rehon 4, Saulnes 3, Senelle 4, Homecourt 3, Neuve-Maison 3, Pont-à-Mousson 4). As the total number of blast furnaces in Meurthe-et-Moselle is 80, the activity of 45 of them represented 55% of the normal production.

In Moselle there were 40 blast furnaces in blast on January 1. Then came the occupation. In Moselle the figure fell from 40 on January 1 to 39 on January 15, 36 on the 20th, 23 on the 24th, 21 on the 28th.

In Meurthe-et-Moselle, Knutange has damped down 2 blast furnaces; De Wendel has damped down 5 at Hayange and Moyeuve and 2 at Joeuf, so that of their total of 21 they finished on January 25 by having 7 at work. La Providence has damped down 2 at Longwy-Rehon, Longwy 2 at Mont-Saint Martin, La Ghiers 1, Micheville 1, Pont à Mousson 1; this last one alone represents one-third of the total production of the foundries at Pont-à-Mousson.

And by the end of January the production of the French blast furnaces which was about 40 to 45% of the normal at the beginning of the month had fallen to 60 to 65% of that.

In the Saar, Rochling has damped down 3 blast furnaces, Burbach 4, and the Redange Dilling works 2.

The same situation in Luxemburg: 9 blast furnaces damped down".

As the supply of German coke diminished the price in the limited French and other foreign markets increased. On February 1 the basic price of metallurgical coke, fixed by the Société des Cokes des Hauts-Fourneaux, was 110 francs. It has been put up to 150 francs as from February 15. Instead of the basic price of coke delivered to the works being applicable to 40 or 50% of their capacity of consumption, it is now applicable only to 10%. For the remaining 90%, the price is 200 francs, which gives a mean price of 195 francs. The works are taking measures to protect themselves, and naturally at the expense of their customers. These measures are of two sorts:

- (1) Cancellation of a proportion of the contracts signed before the crisis, and
- (2) Contracts in process of settlement all have prices based for the future on the price of metallurgical coke or of unrationed coke at date of supply or delivery.

While under the foregoing arrangement the works have a certain protection, the customers no longer know what their orders will cost them.

Certain difficulties on account of unemployment in the metallurgical industry are also threatening. Already in many cases the working day has been reduced to four and five hours, and there is now some talk of a forced stoppage for one or two days per week.

We now turn to the question of what the monthly replacement cost would be of approximately 1,000,000 tons of coal heretofore received on reparation account from Germany by France. The reparation credit figure of price, although generally cheaper than the world market price, nevertheless represented some 13,000,000 gold marks per month; or, in other words, over 16,000,000 gold francs. Taking the dollar at Frs. 16.50 we get a value of approximately 54,000,000 paper francs per month as representing the loss to France on account of the non-receipt of reparation coal since the Ruhr occupation. The cost per ton based on the foregoing factors gives a figure of some 54 francs per ton as against a figure of cost of 127 francs C.I.F. in French ports of British coal today with the pound sterling at 77 francs. Therefore, if the entire monthly shortage from Germany were to be made good by import of British coal it would cost about 125,000,000 francs per month. It appears needless to say that as yet the French have made no effort to entirely replace the monthly shortage in deliveries of German coal.

In our previous letters we referred to the increased importation of some 300,000 tons of coal by France in January from Great Britain over and above the 1,000,000 tons normal monthly supply from the same source. We also referred to extraordinary French imports from Holland and Czecho-Slovakia. While there have been some few thousand tons of coal and coke actually brought out of Germany into France by French military transport personnel, the amount

is inappreciable in volume (i.e. During the month of February the total deliveries on this account to both France and Belgium amounted to 75,000 tons). The consequence is that existing stocks in France are being rapidly depleted, if not already largely exhausted, and either French industry must suffer of the French financial position made to bear the burden of additional heavy importations of British and other foreign coal and coke.

We now turn to the loss due to the suspension of deliveries in kind since the occupation. Aside from coal, France was receiving approximately 12,000,000 francs per month, representing the value of deliveries of general supplies, coal tar and ammonia, benzol and petroleum, livestock, dyestuffs, etc., now stopped since the occupation. The value shown is based upon the methods of calculation of prices prescribed by the Treaty of Versailles, which undoubtedly gives a total result considerably less than the effective value to the French Government of such deliveries. In addition, deliveries of materials to the French Sinistrés under the Wiesbaden and Gillet agreements, estimated at some 1,500,000 francs per month, are stopped.

We now turn to the loss due to the fall of French exchange, which has continued declining since the occupation. We can safely average the fall in exchange at about 15%. Therefore, foreign imports cost France 15% more than before January 10. French imports for January amounted to 2,145,000,000 francs. On this basis we may assume a monthly loss to France, due to the depreciation of the franc, very roughly of some 320,000,000 francs. In addition, the French balance of foreign trade in January showed some set back from December. January imports were less than 50% of those shown for December.

The foregoing factors are admittedly open to every sort of challenge. On the other hand they are not comprehensive as showing all the factors which might be taken into such a broad consideration of cost. We therefore feel justified in assuming that the cost to France on account of increased government expenditure, loss of earnings, etc., incident to the Ruhr occupation, is at least 500,000,000 francs per month, disregarding entirely the jeopardy in which any future German reparation receipts are placed by the injury already done to German economy.

It is impossible at this writing to offer any estimate as to the cost to Belgium of the Ruhr occupation; although based on the same factors as used for France, we feel justified in assuming that the cost to Belgium is proportionately even greater than the cost to France.

Italy is perhaps not as yet feeling any great strain; but neutral countries such as Holland and Switzerland are suffering acutely, finding the Ruhr occupation a very costly operation in their respective economic positions.

We would not even care to venture an estimate of the real cost to German economy on account of the Ruhr operations. In the present situation there is no basis for such calculation. We feel, however, that the real cost will ultimately be found to have substantially exceeded both the Allied and Neutral cost. It follows that the effects of the Ruhr operations will perhaps postpone for many months, or even years, Germany's ability to pay any substantial sums on account of reparations.

The political situation in the Ruhr remains in the status quo: the Allies have found little satisfaction and consolation in Cuno's speech before the Reichstag. As yet there is no tangible indication of any weakening on either side. The French Minister of War has just announced that the military class of 1921, whose term of service with the colors was to have expired on April 1, is to be continued with the colors until the end of May. This means additional expense incident to the maintenance of this class on active military footing for "at least" two months.

French opinion, which we share, is that Germany will ultimately be forced to "lie down". There has been considerable talk in the French papers and curiosity shown as to exactly what is to happen and what is to be the policy after Germany has actually "laid down". The situation in this particular is nebulous in the extreme. Many inspired governmental utterances appear in the French press obviously designed to weaken opposition by "frightening" either the British or Germans. There is, in consequence, little basis for arriving at any true appreciation of what the French Government actually has in mind as to future policy.

Demands have appeared in various French quarters as to what the Government's action should be, but as yet the Government has taken no position. These demands may be summarized as follows:

- (1) Following the Ruhr occupation the Treaty of Versailles, which has always been regarded as inadequate, must be supplemented, if not superseded by a new diplomatic instrument,
- (2) In this convention not only the problem of reparations, but the problem of security must be settled, and it must authorize measures to this end which can not be authorized by the existing Treaty,
- (3) Besides the steps to assure the safety of the French frontiers, such questions as that of the future regime of the Saar Valley must be fixed now, and not after a plebiscite,
- (4) This treaty or convention shall be concluded as between France and Germany, with Italy and Belgium adhering to it, and
- (5) Great Britain shall not be called into the negotiations, but shall be allowed to sign at a later date if she chooses to do so.

The foregoing demands are only interesting as showing the trend of certain groups of opinion. We do not attach undue importance or significance to them. We feel that the French, when the time comes for negotiations, will be more conciliatory than the press would lead us to believe today. French Government officials in a position to know what is really going on behind all this newspaper talk are reticent; those who will talk at all will simply say that they

do not know what the ultimate policy will be, and that the only man who does know is M. Poincare, who keeps it to himself.

The Committee of Guarantees has been encountering difficulties with regard to its system of control which it had set up in Germany. It will be remembered that in return for a partial moratorium accorded Germany by the Reparation Commission's decision of March 11, 1922, Germany agreed to grant the Committee of Guarantees certain extensions in powers of control over those contemplated by the formal Schedule of Payments of May 5, 1921. Based on this, a somewhat elaborate machinery for financial control was established. The Reparation Commission in January, 1923, notified the German Government that due to the latter's "General default" under the "partial moratorium" accorded for 1922 the terms of the formal Schedule of Payments of May 5, 1921, ipso facto came into full force and effect as from January 1, 1923. It followed that the conditions of the partial moratorium of March 11, 1922, carrying agreement on the part of Germany for more extended control by the Committee of Guarantees of German finances, fell due to this action of the Commission. The question as to the present position of the Committee of Guarantees came before the Commission on February 14, and the following formal decision was taken, it being agreed at the time that it was not necessary to notify the German Government of it:

"It was decided that in view of the return to force of the Schedule of Payments of May 5, 1921, the Committee of Guarantees would merely have to execute the mission entrusted to it by the said Schedule of Payments. The Committee of Guarantees would however continue its work, conducting such portion of it as was not concerned with the application of the Schedule of Payments as an inquiry, as the result of which it would submit to the Commission such reports, and when necessary such proposals, as it considered proper. The question of the suppression of the physical control through the banks would form the subject of one of these reports."

Under the foregoing conditions the functions of the Committee of Guarantees are, for the time being, restricted and very obscure.

As concerns the "effective verification" of German exports by Committee of Guarantees' inspectors, acting within the limits of the Schedule of Payments: the Italian, M. Bresciani, who directs such inspection, made the following report during a recent meeting of the Committee:

"The German Under Finance Minister Schroeder requested the Berlin Delegation to suspend this form of verification so as to avoid possible embarrassing situations which would be sure to arise as the result of the local visits of inspectors and any attempt at verifying actual shipments in the presence of exporters. While maintaining the principles of verification and inspection of exports, it was nevertheless agreed to reduce the rigidity of control. As a matter of fact, inspectors were hampered by the refusal of the German opposites to accom-

pany them, and at the present time such local verification and physical examination of exports is completely stopped.

As concerns the occupied territory, the German Director of Commercial Statistics in Berlin stated recently that he could no longer vouch for the accuracy of the information given out by his Department as some of his customs officials had been arrested and some expelled, and in general the customs system in the occupied territory was no longer under the entire control of the German authorities. An endeavor had been made to get in touch with the interallied Rhineland High Commission to ascertain their intentions as the result of this statement, but as yet no reply had been received."

At this point in the hearing of M. Bresciani, the French member of the Committee of Guarantees, M. Mauclere, interrupted, saying that it might later prove necessary to turn over a part of the Committee's control to the Interallied Rhineland High Commission. M. Mauclere decided not to push this question in view of the British member's opposition as the latter was in position to force a decision up to the Commission. If before the Commission, it would raise a question of "interpretation of the Treaty" requiring unanimity and therefore impossible of adoption without the British vote or reference to the Governments. On a number of different occasions the question has arisen as to the Commission according "mild forms of recognition by the Reparation Commission of the existence of Interallied agencies established in the Ruhr since the occupation". Such proposals have from time to time been advanced in various forms by the French and Belgian Delegates. In each instance, however, after Bradbury intimated the possibility of such proposals raising the question of "interpretation of the Treaty", the proposals have been withdrawn. Bradbury is in a position at any time he sees fit to raise the question of "interpretation" on account of the activities of the so-called Allied agencies in the Ruhr. So far at least he has not felt it expedient to force the issue. However, the possibility always rests as a dark cloud on the horizon over the Franco-Belgians and as a fly in the ointment to such Versailles Treaty juridical purists as M. Poincare. In view of all the foregoing, M. Mauclere agreed to sending M. Bresciani into the occupied areas to "consult with the local Allied authorities there as to the best manner of securing accurate data as to the value of German exports upon which to state a part of the German account under the Schedule of Payments".

The foregoing is reported as showing a certain ambiguity of the position of the Reparation Commission and the Committee of Guarantees incident to the existing Franco-Belgian occupation.

Difficulties have been encountered due to the Franco-Belgian levy on exports and imports in occupied German territory. This has reached a somewhat acute form as concerns the activities of British merchants who have established themselves since the Armistice in Cologne. At the present time the British zone is completely surrounded by the French and Belgian zones of occupation with the exception of the Rhine river. To date the Franco-Belgians have maintained the right of levying on goods consigned to and coming from such British merchants. In addition, it is reported that a British steamer on the Rhine river is being held by the French who maintain its cargo is subject to this

tax. No definite information is available as to the outcome of this situation which is causing some concern.

In this same connection the Japanese Delegation informed us the other day that they were somewhat embarrassed by reports of Japanese importers of German goods from the occupied territory as to their position vis-a-vis the German authorities and the French authorities. According to the Japanese statement, the Franco-Belgian occupation authorities enforced payment of a 10% ad valorem export tax in addition to a payment in foreign currency for each export, corresponding in a sense to the 25% collection on the values of exports prescribed by the Schedule of Payments. In the occupied territories there is not a fixed percentage applicable to all exports, but a foreign currency payment which varies according to different categories of goods. When these goods passed in the course of their shipment out of the occupied regions into and thru Non-occupied Germany to Hamburg and Bremen, the Germans in turn demanded a 10% ad valorem export tax and the customary payment in currency of sound value of 25% under the Schedule of Payments. The Japanese importers have naturally protested, claiming that such payment had already been made to the French and Belgian authorities. The Germans replied that that had nothing to do with Germany, and that Germany was forced to exact such taxes under the Schedule. Unquestionably by this time American importers have encountered similar difficulties, which in all probability have already been reported to the State Department. However, as the foregoing difficulties are apt to become more and more acute and are being encountered by neutral countries, particularly Holland and Switzerland, we feel it important to bring the question to the attention of the Department.

The foregoing views and conclusions, while perhaps superficial in certain details, nevertheless, accurately picture the financial and economic gravity of the existing situation. The French and Belgian Governments, who at heart have no illusions as to the present aspects of the financial and economic position in which they now find themselves, are nevertheless being somewhat reluctantly pushed along by their public opinion, and still maintain the hope that the ultimate end attained will justify and cover their economic and financial losses of today.

Faithfully yours,

Jan A. L. Jr.

JAL/AJG

The Honorable Benjamin Strong,
Governor, Federal Reserve Bank of New York,
New York City.

Annex 1783 a.b.

ANNEX 1783 a.

PARIS, March 14, 1923.

From: The Committee of Guarantees

To : The Reparation Commission.

Issue by the German Government of an Internal Loan to be subscribed

in foreign currencies.

The French Delegation has referred to the Committee of Guarantees the attached note relating to the issue by the German Government of an internal loan subscribable in foreign currencies. In the course of the discussion the French Delegation further raised the question of the Reichsbank's right to issue such a loan without the authorisation of the Reparation Commission.

As the proposals of the French Delegation involve an interpretation of Article 248 and paragraph 12b of Annex II to Part VIII of the Treaty of Versailles (on which the representatives of the Committee were divided), the Committee of Guarantees took the view that it could not arrive at a decision until the Reparation Commission should have ruled as to the interpretation of the above texts.

The Committee of Guarantees has the honour therefore to submit these questions of interpretation to the Reparation Commission.

Signed: BEMELMANS.

MAUCLERE.

Enclosure.

N O T E

From: THE FRENCH DELEGATION TO THE COMMITTEE OF GUARANTEES.

To: THE COMMITTEE OF GUARANTEES.

The German Government has decided to issue a domestic loan payable in gold. The subscription is to open on March 12th next.

The French Delegation considers it imperative that the Committee of Guarantees, entrusted with ensuring the application of Article 248, should at once call the attention of the German Government to the consequences of such a decision.

At the present rate of the mark the service of a gold loan would constitute a heavy burden on the resources of the German budget. The consequent expenditure to be charged against future budgets could not be considered to be included among the legitimate or necessary expenses of current administration.

This expenditure must all the more be subject to the priority laid down in Article 248 since the insertion in this Article of the right to grant exceptions was in particular the result of the desire to allow the German Government to issue domestic as well as foreign loans.

It was in fact at the request of this Government that the Allied and Associated Powers decided to complete Article 248 by this right to grant exceptions.

The German Delegation had complained that "the establishment of a first charge would ruin the credit of the Empire and the States", and enquired how, outside the Reparation Commission, "Germany could contract further domestic or foreign loans."

The Allied and Associated Powers revised the text of Article 248, considering, they said, "that in certain special cases there must be freedom to grant exceptions to the general principle

laid down. This new provision makes it possible, in particular, to take measures to safeguard Germany's credit as far as possible."

The German Government admitted therefore that it could not issue a loan, either domestic or foreign, without the consent of the Reparation Commission, and it was in view of this fact that the right to grant exceptions in this respect to the general first charge, was inserted in the text of Article 248.

It is moreover obvious that if the Governments of the German Empire and States had been granted unlimited freedom to incur debt the result would have been to nullify the rights of the privileged creditors.

Furthermore, even on the impossible assumption that the German Government should be left free, in spite of Article 248, to issue unlimited domestic or foreign loans in gold or national currency, it would be none the less true that the service of such loans would be subject to the settlement of the credits for which this article establishes a first charge.

The German Government would be unjustified in denying this, inasmuch as in the same passage of the Remarks of the German Delegation it is stated that "the service of each of these loans (further domestic and foreign loans), would be placed in a doubtful situation if they were subject to an unlimited arbitrary charge before any payment could be made".

Moreover, does not paragraph 12 of Annex II impose on the Reparation Commission the duty to ensure that the sums for reparation which Germany is required to pay shall become a charge upon all her revenues prior to that for the service or discharge of any domestic loan?"

Therefore, in Opinion 416, the Members of the Legal Service, while divided on other points, were unanimous in finding that "Article 248 and the corresponding articles of the Austrian Hungarian and Bulgarian Treatiesrequire the ex-enemy Powers.....not to pay the interest or principal of any domestic loan in priority to an enforceable claim to a reparation payment."

In view of all this, and in presence of both the issue of a new domestic loan, and the existence of claims which, being enforceable have not been discharged, is it not the duty of the Committee of Guarantees at least to call the attention of the German Government and its lenders to this unquestionable consequence of the Treaty.

It is in fact the Committee of Guarantees which, under Article 7 of the Schedule of Payments, is "charged with the duty of conducting on behalf of the Commission the examination provided for in paragraph 12 (b) of Annex II to Part VIII."

Finally, the Committee should remember that it must, under the same Article, "secure the application of Article 248", and, more particularly, "the application to the service of the Bonds provided for in Article 2 of the funds assigned as security".

Now, in view of the fact that none of the special revenues provided for this purpose have as yet been handed over, and in view moreover of the mandate which the Allied and Associated Powers have entrusted to the Reparation Commission to secure the execution of Article 248, the Committee would be failing in its duty if it did not take every measure to prevent the exceptional revenues of the Reich, such as the proceeds of the contemplated loan, from being excluded from the first charge laid down by this Article.

The French Delegation, therefore, is of opinion that the following statement should be sent immediately to the German Government.

As the Reparation Commission has granted no exception to the German Government under Article 248 in favour of the gold loan which the said Government has just decided to issue, the proceeds of this loan together with the funds earmarked for the service of interest fall within the assets and revenues of the Reich which Article 248 assigns by priority to the settlement of reparations and other charges resulting from the Treaty. Consequently, the Reparation Commission, acting under Article 248, requires that the proceeds of this loan shall be applied to the settlement of these privileged claims, and reserves the right, under paragraph 12b to Article II, to assign to these claims all funds earmarked for the service and discharge of the loan in question.

SIGNED: MAUGLÈRE.

JAMES A. LOGAN JR.

Paris, 18 rue de Tilsitt.
16 March 1923.

Personal & Confidential

My dear Ben,

There has been some publicity to the possibility of opening negotiations between the Franco-Belgians and the Germans on the reparation and Ruhr occupation questions. It has been clear for some time that both parties to the controversy are approaching a frame of mind where they would like to have some direct conversation. On the other hand, in the present state of affairs, it would be political suicide for either M. Poincaré or Herr Cuno to make the overture. There have been certain maneuvers to the foregoing end which are of interest: Herr Cuno, in a speech in the early days of March, insisted upon the fact that his government had:

"elaborated new proposals for the Paris Conference of Prime Ministers and had invited the Powers to receive these proposals in written form".

adding that he

"had offered to negotiate with a view to bringing about a collaboration of French and German industry".

In an official note issued by the Quai d'Orsay on March 8, the French replied to the statement of Herr Cuno in the following sense:

"At the opening of the Paris Conference M. Poincaré described the démarche taken by the German Ambassador in Paris who had been received by the Director of Political and Commercial Affairs at the Quai d'Orsay. Dr. Mayer declared to M. Peretti della Rocca that he had received instructions from his government 'to inform M. Poincaré in an official manner that the German Government, after having examined the reparation question with the authorized representatives of the German economic interests, had drawn up a plan to settle this question. The German Government had obtained assurances of help from the representatives of German industry and finance for the carrying out of the program thus elaborated, and had charged Dr. Mayer to approach M. Poincaré as to the possibility of a representative of the German Government being allowed to submit this plan at the meeting of Allied Ministers and give verbal explanations to them. The German Government authorized Herr Bergmann to expound the plan before the Conference'. It was therefore not even a question of written proposals but simply of a démarche announcing a visit. Mr. Bonar Law was entirely in agreement with M. Poincaré in postponing to a later period the discussion

"as to the response which should be accorded this question. M. Poincaré added that he had been the object of another démarche of the German Government between the London and Paris Conferences. In this case it was a question of receiving before December 30th Herr Stinnes and Herr Silverberg who were disposed to enter into relations with French industrial interests with a view to arranging an exchange of coke against ores. M. Poincaré having asked whether these exchanges would or would not be put to the account of reparations, Dr. Mayer, after some hesitation, gave it to be understood that they would be outside the question of reparations. M. Poincaré took note of the fact that German industrial interests were proposing to French industrial interests economic arrangements independent of reparations. He informed Dr. Mayer it was impossible to receive Herr Stinnes and Herr Silverberg immediately before an international conference, but that he would bring the démarche to the notice of the Allies. It follows from the above that Herr Bergmann had a written plan thought out in detail other than that which had been presented in London; that that plan was not put forward; and that Herr Bergmann had no other instructions than to make oral suggestions".

The foregoing is a more or less direct invitation from Poincaré to Cuno to submit "a plan".

There have been some activities on the part of neutral nations and individuals to bring the French and Germans together; and in this connection it is of interest to refer to a declaration made by M. Poincaré before the Committee of Foreign Affairs in the French Chamber on March 10, viz:

"M. Poincaré has renewed the declaration which he made from the Tribune of the Chamber that the Government would not accept any mediation or any indirect conversation, but that the day when Germany would understand the situation the French Government would be ready to listen and to examine all official proposals which the German Government presented. In any case, France will not abandon against simple promises the security and the guarantees which she has been obliged to take".

Certain portions of the French press lately refer to the possible isolation of Great Britain from the expected preliminary negotiations with the Germans. Such references have appeared in the anti-British press and designed to play on the bitterness created by the British not joining in the Franco-Belgian action in the Ruhr. In this connection it is interesting to refer to an obviously inspired newspaper statement of March 10th to the effect that:

"Both MM. Poincaré and Theunis, I am informed on the highest authority, deplore the impression which appears to have gained ground that there is any intention to isolate Great Britain or to deprive her of a right to discuss the new terms which may be imposed on Germany when she submits. It is necessary to point out that there will be as it were essential cases on which both France and Belgium will insist that there should be no discussion except in matter of detail; for instance, having occupied the Ruhr against the advice of Great Britain, the two Continental Allies, if they find that their policy has been successful, will naturally be opposed to allowing Great Britain to make such suggestions as would cut at the root principles of the advantages which they have gained by the occupation. That is to say, that the date of the evacuation of the Ruhr and the Rhineland will be made to depend solely on German compliance with the various terms of the Treaty and will not automatically revert to conditions which prevailed before January 11; otherwise, the French and Belgians would in the moment of their victory be tamely consenting to a reversal of the policy that has brought them victory; but on all questions of conditions and degree of payment, of financial control and taxes, and customs duties, the advice and criticism and even the opposition of the British Government will be most cordially invited and accepted. Conditions for the establishment of any coal and steel combine between the Ruhr and Lorraine mines will naturally also be open to British partnership and British rivalry. That is a common ground for both the French and Belgian Governments".

On March 13, M. Poincaré went to Brussels for a conference with M. Theunis concerning the Ruhr. There have been a number of meetings between these two gentlemen in the past in Paris. M. Poincaré had not been in Belgium for a long time. This resulted in some criticism of the Theunis Government in the Belgian press, on the general grounds that "Theunis was simply taking orders from Poincaré". This criticism not only had the entire support of the Belgian Socialists but was gradually extending further to the right. In our judgment, M. Poincaré's visit to Brussels was largely designed to support M. Theunis in Belgium and to correct the impression that M. Poincaré had M. Theunis "in his pocket". From what we gather, M. Theunis, who was reluctant to participate in the Ruhr venture, is today worried as to its outcome; critical of the French dilatory tactics and absence of plan; and feels that only by more energetic measures can the date of the final solution be advanced. The Belgian financial and economic situation is feeling keenly the burden which it is forced to carry incident to the Ruhr operation. Having once embarked on the venture, the Belgian view is that the only hope is to force the issue.

There has been some friction between the French and Belgians in the Ruhr, and Belgians government officials are out-spokenly critical of the too conciliatory tactics of General Degoutte. On the other hand, M. Poincaré's strength in France has depended on the combined support of the "Security Group", the "Reparation Payment Group", and the "Industrial Group" of French public opinion. While there has been much talk of the French Government having a plan,

there has been no announcement of the details of such a plan. It is difficult for M. Poincaré to lay down any definite plan in the present position as it would lose him the support of at least one group of French opinion which might be disastrous. The presentation of a too detailed plan at this moment would also give the impression that M. Poincaré was afraid of Herr Cuno, and therefore not able to await the heralded moment of Herr Cuno's submission to his will. It is needless to say that if the French public gained this latter opinion M. Poincaré's political life would cease.

From what we are told the Brussels Meeting was not of the most harmonious character: (a) the Belgians throwing out veiled criticisms of the French having no plan and dilatory in their tactics; and (b) the French claiming that the Belgians had no plan and were reluctant to await the logical working out of the French plan of economic pressure in the occupied area, which ultimately would bear its fruit in victory. The net results of the Brussels discussion was, therefore, a compromise of views of more important effect than had been contemplated prior to M. Poincaré's visit. The following is an extract from the communiqué issued March 13th at the close of this Brussels conference:

"The two governments have taken measures to insure the necessary deliveries of coal and coke to France and Belgium. The program of such delivery will be executed progressively, following common directions given by the two Cabinets. They have adjusted all questions relative to accountability, and to the Franco-Belgian regime for the operation of the Railways in the occupied areas. They have agreed as to the measures of repressive sanctions to be applied in case of any new opposition directed against the occupying troops. They have determined the rules under which export and import licences are to be issued covering commercial transactions of foreign merchants and industrials. Finally, the two governments are once more in accord not to evacuate the Ruhr and the other territory recently occupied on the right bank of the Rhine in exchange for simple promises by Germany, but only to effect such evacuation gradually and dependent on the measures of execution taken by Germany in the satisfaction of its reparation obligations. The two governments have equally resolved not to quit these territories without having obtained from the Government of the Reich guarantees and immunity for German nationals who have aided the Allied authorities during the period of the Allied occupation".

The foregoing means little so far as fixing any definite time for the evacuation of the territory on the right bank of the Rhine. However, it carried a certain commitment dissipating the thought of "annexation", "creation of an independent state", etc. to which German propaganda has given circulation abroad.

One result of the Brussels conference is the announcement that without calling upon fresh classes the strength of the occupying forces would be brought up to the highest point possible. Official circles insist there is no question of calling up more troops for service with the colors,

there being sufficient men available at present. The Belgians are prepared to send 5,000 men and France will shortly have an additional 15,000 men in the occupied regions. This will bring the total to 90,000. It was announced that after a lapse of four or five days to give the German mine owners of the Ruhr an opportunity to pay the occupying forces the coal tax on coal now stored at pitheads and to actively participate in loading such coal on railway cars, the French and Belgians, irrespective of the effect on German labor, intended sending their own labor parties into the Ruhr for the purpose of loading this coal under the protection of their troops and shipping it to France and Belgium. It was announced that 5,000 outside laborers were being sent into the Ruhr and that arrangements were being made to increase this number by 40,000 men.

These foregoing measures were taken as answer to the threat of the German miners to cease work in the mines in the event of the seizure of any coal stocks at the pitheads by the Franco-Belgians. The latter have not as yet made such seizures on any extensive scale. It was tried out, and in each case the miners stopped work. The Belgian thesis is to seize the coal and if the miners strike to threaten, even if not carry out, the measures the Germans so effectively employed with the Belgian miners during the war when occupying Belgium. In this latter case, when the miners threatened to strike, the Germans replied: "All right, strike, but if you are going to strike we are going to see that it is a complete strike involving not only the cessation of active mining, but also the stoppage of the pumps, with its resultant flooding of the mine pits". This German threat in Belgium was effective, as the miners realized that if the mines were once flooded it would take many months before they could be put back into production. Whether such threat would succeed in the Ruhr rests to be seen. Were the mines once flooded it is apparent that the Franco-Belgian coal supply from the Ruhr for many months to come would feel its effect as well as Germany. Under the latter circumstances, we doubt whether this will ever be carried further than a threat.

Behind the whole scene the French are facing another situation which is giving them some little concern. When they first started in on the Ruhr operation they referred to it as the "Allied operation of France, Belgium and Italy". For some time past now they have been thoroughly disabused as to the extent of the Italian support; and have been contenting themselves with referring to the Ruhr operation as a "Franco-Belgian effort", gradually treating Italy as an outsider somewhat in the class of Great Britain. Since the Brussels Conference they are commencing to have some suspicion as to the whole-heartedness of the Belgian support, and are somewhat fearful that Belgium is commencing to desert them and bowing to the wiles of the British. The Belgians have felt the special position into which they have been forced. From all we gather, the British, since Belgium's definite joining up with France, has more or less treated Belgium as a "Small Power" in the literal sense of the word, and in consequence the Belgian amour-propre has been affected. The national salvation of Belgium depends on both British and French support; before the Ruhr venture they had played the part with considerable benefit to themselves of a "Great Power" as "the compromiser" between the British and French, and therefore do not like the position in which they ~~have~~ are placed today. It is difficult to say, how much, if any, importance this factor will play in the future.

The customs control set up by the Franco-Belgians in the occupied area is presenting difficulties. All German customs officials, except those in the British zone, have been expelled. Many of the frontier customs houses have been closed due to lack of personnel; in others French and Belgian customs officials are installed. These latter, in most cases, speak no German, and in practically all cases have no understanding of the German tariffs. Up to date all efforts to enforce the German tariffs have been abandoned, and replaced by a simple formula of "a 10% ad valorem duty on all imports and exports". All foreign export duties on this basis are collected in foreign currency. No exports are allowed without a licence being obtained at the export licence office at Essen so far as concerns exports from the Ruhr, and the Ems office so far as concerns exports from the Rhineland. To obtain an export licence a sliding scale levy in foreign currency of approximately 25% of the value is made. As concerns export licences from occupied Germany into Non-occupied Germany, these are issued at four different points; In this latter case the official terminology for the licence is not "export licence" but "dérogation". The German Government to date hold it a crime for any German national to apply for either an export licence or a dérogation to the Franco-Belgian authorities. This crime is punishable by fine or imprisonment. The consequence is that up until March 5th there have not been sufficient funds received by the Franco-Belgian customs officials to pay salaries, and funds for this purpose had to be sent by the French and Belgian Governments. Due to the expulsion of the German customs officials and the lack of knowledge of the French and Belgian customs officials of local conditions, smuggling both within and without the occupied areas has reached very large proportions. The French and Belgians are hopeful that in a short time they will be able to effectively re-establish the customs cordon, preventing smuggling and securing substantial returns.

There has been so much talk in the European press, particularly the neutral press, as to what Germany has, or has not, paid on account of the Treaty of Versailles that it appears pertinent to submit some considerations on this point.

The Reparation Commission published a communiqué giving the credits on reparation account to Germany up to December 31, 1921, as follows:

	Gold marks
	(Abt. 4 to dollar)
Cash,	1,184,172,000
Deliveries in kind,	2,799,342,000
State properties in Ceded Territories,	2,504,342,000
	<u>6,487,856,000</u>
From this should be deducted	390,000,000
(Lent by Allies to Germany)	
	<u>6,097,856,000</u>

The credit for deliveries in kind is noted as provisional, but the item can nevertheless be regarded as fairly near final. The real value of these deliveries was substantially greater than the credit given. In the case of coal, the treaty provisions fix special (and low) prices, and in every case there have been factors which tended to lead to conservative valuations. It should also be borne in mind that the loss to Germany by reason of some of

the deliveries was distinctly greater than their value to the Allies, however fairly that value might be reckoned. For instance, the delivery of her shipping was a blow to her general economic organization, and the dye provisions of the Treaty not only called for low prices but were rightly aimed at her dye monopoly.

The value of the Saar mines, is not included as yet. This figure will be probably about 400,000,000 gold marks, which is low; the Germans have reckoned it as high as 1,100,000,000 g.m., which is surely too high.

The military, naval and aeronautic material is not reckoned, except for a small item resulting from sales of scrap, nor the value of the German navy. These values cannot be reckoned under the terms of the Treaty, and this is right, first, because the Allies get little of value from them, and second, because they have not deprived Germany of useful, productive wealth; but these things did represent enormous expenditures. The destruction of the material, and the destruction and reconversion of the plants for making it, was expensive. We have never heard an estimate, but we would be surprised to find that it was less than eight billions, and it may have been even more. The Allies took over considerable of this for their own use, and destroyed the rest, getting the proceeds of the scrap material.

Starting with the total given by this communique, 6,097,856,000

You have to add -

Cash payments in 1922,	721,493,395
Deliveries in 1922,	684,000,000
	<u>7,503,349,395</u>

Part of this 1922 cash was really not cash, but German Treasury bills, guaranteed by the Reichsbank and accepted by Belgium on account of her priority. Some of these bills have been paid since the occupation of the Ruhr began. It looks likely that they will all be paid; the balance as yet unpaid is a little over 200,000,000 gold marks.

The priority of army costs has cut down the amount available for reparation account, and Belgium's priority on reparation payments has not yet been completely met (It was 2,500,000,000 gold francs), so that, if concessions had not been made, France would have received nothing on reparation account. She has actually, as the result of various concessions to her, received more than she is entitled to under the provisions of the Treaty. She ought not to have joined in the grant of priority to Belgium, as she needed priority about as much as Belgium; but this priority was arranged at the time when the ideas as to Germany's capacity for paying and paying promptly were high.

The army costs are, of course, a great burden on reparations. The army costs up to May 1, 1921, a total of about two billion g.m. -(not including U.S. costs) have been charged against reparations. Since that date the differentiation between army costs and reparations is not very clear, and the two items are subject to rather intricate interallied arrangements. The payments which we stated had been made in 1922 are applicable to both items.

After getting to this point you have to consider various

items, which, as the Commission's communiqué states, are not included at all in the foregoing.

First, the cash payments. These include clearing house balances, paper marks and all sorts of other things requisitioned by the armies in Germany at the expense of Germany, and payments of salaries and expenses of the various treaty commissions within and outside Germany, like the Military Control Commission, the Rhineland High Commission (in charge of the armies and the occupied territory), the Reparation Commission. But bear in mind that they cover payments made not only in paper marks, but in all sorts of other currencies, and that the conversion of these payments into any one currency and one total involves details of dates of payment and rates of exchange at all these dates and that your conversion into dollars, if you make it, will be a somewhat arbitrary operation. This will give you a clue to some of the difficulties of making any estimate of what Germany has paid, and why different estimates are bound to differ more or less.

One must also bear in mind that the Germans have had to maintain expensive organizations of their own to carry out their obligations under the Treaty. They have to have organizations to deal with and to carry out the instructions of all the Allied organizations.

Second, Restitutions. The Treaty makes Germany restore anything taken away from any Allied country which can be found and identified in Germany. This has actually been done on a very large scale, and the Germans have to pay transportation, cost of putting restored machines, etc. in order, and cost of the National Commissions (the Allies have at times had 1,000 - 1,500 men in this work) who are searching Germany for all these things. The objects restored include pictures, rolling stock, machinery of all kinds, animals -- anything -- even to a certain extent money and money obligations taken by the Germans in the territory they occupied. This restitution work is something of which the public has heard little; but which in the earlier stages brought surprisingly good results. It has been carried so far as to become wasteful in the sense that for a long time they have not been recovering enough to pay a substantial percentage of the money cost of the search.

Restitution is in substance the taking away from Germany of things which -- except so far as they were legitimate war booty -- did not belong to her. In this sense it is not quite like a payment by Germany, but it involves a burden on the German budget. This burden (except during the later period when it has become economically wasteful) is probably not as great as the burden involved in delivering an equivalent value of regular reparation deliveries. But they do have to indemnify their citizens who have bought from their government these things which they are now restoring, and the economic loss involved in taking a machine (for instance) out of a factory when it is being operated, and replacing it by another, represents a loss which does not get into any account except the profit and loss account of the particular factory.

No valuation of things delivered by way of restitution has ever been made by the Commission, but we have some rough figures from French and Belgian sources, which indicate a total for these two countries of about

2,700,000,000 ^{franco} ~~sm.~~ These figures were made some time ago; they include some estimate of things to be received. But they do not include other countries, and they are made on a very conservative basis. We mention a figure only to make it plain that restitutions has been a big and expensive task.

State Properties in Ceded Territories. This item, which appears in the Commission's communiqué, is real value (provisional), but in considering what Germany's effort has really been, one ought not to attach so much importance to it as to Restitutions. She was separated from this property by decision of the Allies. It goes with the ceded territories in which it is situated to the countries which get those territories: Poland, Czechoslovakia, Free City of Danzig, Belgium, Denmark, etc. The Allies do not get this value, unless these countries who get these territories pay for the properties as the Treaty requires them to do. Denmark has already paid, but none of the others have, and one is permitted to doubt whether they all will. But Germany has given up the properties, and gets credit on the Commission's books.

Partition of Debts. Another item, not mentioned at all. The countries to which territory was ceded are to pay their proportion of the German Debt. Each country (not including France in respect to Alsace-Lorraine and some exception in Poland's case) is to pay its part -- but not to Germany -- but to the Reparation Commission. This would have been a very substantial item, if paid, if the amounts had been decided early. But they have not been decided yet, and as the Treaty made no stipulation for gold, they are merely fractions of a paper mark debt, which helps a bit to assuage the grief of these debtors as they watch the fall of the mark, but does not please the countries interested in reparations.

One ought not to forget that the German obligation is an obligation of Austria and Hungary as well, and in part an obligation of Bulgaria (Turkey? Ask Lord Curzon). They are jointly liable. But after one has remembered this important point, there is not much else to be done or said about it, and we leave its significance to your imagination.

German values sequestered. The British, French, Italians and Belgians have not published their figures of German values sequestered during the war. However, the value of German property sequestered in the United States is today about \$280,000,000; which figure is 1/2 or perhaps less than the actual value at the time sequestered. This figure will be reduced by some \$50,000,000 under the recent act of Congress authorizing the release by our Enemy Custodian of certain categories of holdings. German property sequestered by Great Britain was somewhere near the value of that sequestered by the United States. France and Italy are lower. On the foregoing basis, it is reasonable to assume that the total value of all German property sequestered is in the neighborhood of \$1,200,000,000.

By manipulating the figures you can support almost any point of view as to the effort Germany has made. If you want to prove that she has paid nothing, you emphasize reparations in the strict sense, ignoring restitutions, property in ceded territories, clearing-house balances, sequestered values and all other cash payments and expenses not included in reparations, then charge the Army costs (including U.S. Army costs) against what you do take

into account, and reach the conclusion that Germany has paid little or nothing. On the other hand, by exaggerating valuations, and valuing things that represent no real effort you might reach \$6,300,000,000, or more. I should think a fair guess would be not less than \$3,300,000,000, probably nearer \$4,000,000,000.

In comparison with Liberty Loans, or Interallied Debts or War Expenses, the foregoing does not seem an impressive figure. It is most common to compare it with the amount which France has spent since the Armistice on reconstruction and damages and pensions and allowances, say 90 billion francs, which, at say 12 francs to the dollar, is about 7-1/2 billion dollars. But all such comparisons are misleading for Liberty Loans, etc. and the French effort and the German effort cannot fairly be translated into a common unit for purposes of comparison and you cannot fairly compare an internal financial effort of one nation with an external financial effort of another nation. Germany could doubtless have made an internal financial effort, increased taxes, and internal loans of say 100 billion marks without such disastrous results to her finance as have actually occurred. The fundamental difficulty has been that it was an external effort which was necessary and which was being enforced by force. If for instance the claim of England and the United States were being pushed against the other Allies in the same way, you would see the same results, though France has been able to make an internal effort of nearly the same amount without particularly disastrous results.

There have been some rumors in the Press concerning activities of the British regarding an adjustment of the Ruhr controversy. We are reliably informed that Lord Derby, within the last few days, made a confidential visit to Theunis in Brussels. We also know that Governor Normand of the Bank of England, and probably Mr. Baldwin, the Chancellor of the Exchequer are at present confidentially in Paris. As to what this means, we have no information at the present. These confidential visits, perhaps have some significance.

In addition we have been informed by Delacroix that in view of the apparent impossibility of reconciliation in the position of both Poincaré and Cuno as regards being "the first to submit a plan", suggestions have been made to the Germans that the latter "bow down" to the Reparation Commission on so much of the question as concerns reparations proper thus opening the way for some later conference to discuss and adjust the political phases of the question. While this plan would overcome certain of the existing difficulties, there is doubt, in our judgment, if it would be acceptable to Poincaré who is more or less forced by public opinion "to lead Cuno into camp chained to his chariot".

On page 4 of this letter we gave an extract from the Communiqué issued March 13th at the close of the Brussels Conference, together with some comments. We omitted, however, reference to the fact that this Communiqué referred only to "reparations" omitting all reference to "security". There was criticism of this omission in the French Press with the result that on March 15th the following obviously officially inspired French statement was issued:-

"There is reason to believe that the attention of the French Government has been drawn to the monstrous violation of the Versailles Treaty committed by Germany

"from the point of view of her military obligations and especially to the obstacles which have been put, since the occupation of the Ruhr, in the way of the control exercised by the Nollet Commission. It should therefore be recalled that Article 429 of the Treaty formally links up the evacuation of the Rhineland territory with guarantees against an unprovoked aggression on the part of Germany. It would not be surprising were the French Government to recall the doctrine proclaimed in 1920 by M. Millerand by virtue of which, so long as Germany does not fulfil her disarmament obligations, the period after which evacuation shall be effected does not begin".

In view of all the foregoing, we would hesitate expressing the view that the opening of the period of negotiations is imminent. On the other hand, there is evidently great activity in many quarters to advance the date of this period. There are signs of a more conciliatory spirit from the German side. A belated correction has been put forth in Dr. Cuno's Reichstag speech, toning down a passage in the reports which made him say "Warnings to negotiate should be addressed not to Germany but to France". The phrase is now to read, "not to Germany alone but also to France". This is an important departure from the views heretofore expressed from Berlin and an important step in the path to understanding.

Faithfully yours,

Jan A. L. Jr.

JAL/BD

The Honorable Benjamin Strong,
Governor, Federal Reserve Bank of
New York, New York City.

PY - MD

JS

Green
Paris
Dated March 17, 1923
Received 5:26 p.m.

Secretary of State,

Washington, D. C.

132 March 17, 4 p.m.

B 867. Miscellaneous reparation receipts February 17th to March
17th Luxemburg coal 2000 pounds, textile alliance dye stuffs \$4564 credit
Belgium. Proceeds British reparation recovery action February 1923
625000 pounds retained Great Britain against army costs. Boyden

HERRICK

CSB

JAMES A. LOGAN JR.

Paris, 18 rue de Tilsitt.
23 March, 1923.

Personal & Confidential

My dear Ben,

During the early days of the past week there was much press reference to "the impending opening of negotiations" concerning a Ruhr settlement. The press stated that the Germans had approached the "British Government", the "American Government", and "various Neutral Powers", with "requests for their good offices in reaching an understanding with the French". It was also said that certain "important neutral financiers" had been asked by the Germans to exercise their good offices to the same end.

So far as the American phase was concerned, these rumors were put to rest by the semi-official statement issued by the Department.

On March 16 the British Government issued the following official communiqué:

"Great Britain has consistently followed its policy concerning the occupation of the Ruhr by remaining entirely out of the question. The Government is not contemplating interfering, and has no intentions to do so, particularly in the situation where the evident solution is for Germany to take the initiative by directly approaching France and Belgium. Since the beginning of the occupation of the Ruhr the attitude of Great Britain has been to disassociate itself from this adventure, notwithstanding the very friendly sentiments it always holds for France".

The French Government on March 22 issued the following semi-official statement with reference to a rumor which had been given wide publicity to the effect that M. Dubois, the Swiss banker, and Bergmann had been in conversation regarding a plan of possible settlement:

"This news is formally denied, not only by the Ministry of Foreign Affairs, but also at Berne by the L'Agence Télégraphique Swiss. Quai d'Orsay declares frankly that M. Dubois has never undertaken, officially or unofficially, any mission of this kind, and that in the course of his recent visit to Paris of a purely personal character during last week the latter refrained from any mention whatsoever of the reparation

"question. The attitude of France which has already been announced remains absolutely unchanged. Not only does the French Government remain decided to pay no attention to the various "feelers" which might be made by Allied or neutral personalities, but goes further in announcing that it would consider as unfriendly all such offers of mediation. Only such proposals which are made directly by the Government of the Reich to the French Government will be examined by the latter."

On March 22 Herr Cuno, in a speech at Munich, made the following statements:

"I repeat what I have said at the Reichstag: With a France which wishes peace and reconstruction, we are able to deal, but with a France which wants the Ruhr and the Rhine, and in addition wants the destruction of Germany, we will never reach an agreement".

He concluded by asking the German people to continue their passive resistance in the Ruhr, declaring

"that Germany has not asked any one to mediate".

The foregoing announcements have for the time being stopped the press reports of "an impending early settlement". From what we gather, these press reports to date have had very little foundation in fact, particularly as presenting any real evidence of German weakening. From what we gather, the German people in their present wave of patriotism are perhaps too resolute in their purpose to fight the present situation out to its bitter and irrespective of consequences. This is perhaps even an embarrassment for the present German Government who, while wanting the best terms possible, do not want to see real chaos in Germany.

On the other hand, the effect of the foregoing announcements by the outside Great Powers of their intention not to interfere and particularly the British invitation "for Germany to take the initiative by directly approaching France and Belgium" must tend to seriously shake German resistance.

While we would not care making the definite assertion, there are, nevertheless, some indications that Great Britain is showing a somewhat more conciliatory policy with regard to France. In our letter of March 16th we referred to the visit of Lord Derby to Brussels and Governor Norman of the Bank of England to Paris. (We also referred to the rumored presence in Paris of Mr. Baldwin, the Chancellor of the British Exchequer. This latter rumor was unfounded). The fact that Mr. Norman's visit became public property led to some criticism in the French press on the grounds that the visit was based on the desire to "interfere in the Franco-German situation". This criticism however was dissipated by the semi-official publication of the following:

"Satisfaction in France with the results of the conversations between Mr. Montagu Norman, Governor of the Bank of England, and M. Robineau, the Governor of the Bank of France, becomes more pronounced as it becomes more clear that as a consequence of these negotiations the Bank of France will probably be relieved of a considerable financial embarrassment in the present year.

While the Genoa Conference was sitting in April, 1922, the cooperation of the great State banks was suggested as a means of restoring the financial situation of Europe, and conversations were begun between representatives of large financial houses to discover a method by which all could profit by a general agreement on the liquidation of credits. The Bank of England had already granted to the Bank of France commercial credits amounting to £72,000,000. The first repayment of £7,000,000 was made in February, 1919, and a second repayment of £10,000,000 in October, 1922. The sum of £55,000,000 still remains to be repaid, and the manner of its repayment formed the subject of the recent conversations in Paris.

The repayment of this sum of £55,000,000 falls due in the current year, but it is understood that Mr. Norman according to the desire of the Governor of the Bank of France will agree to the postponement of the repayment for a period of from five to ten years. The Bank of France will thus be relieved of the necessity for finding this large sum of money within the next few months, which could not be done without creating a serious disturbance on the French money market.

It is understood that Mr. Norman took a reasonable and sympathetic view of the situation and gave proof of his desire to meet the wishes of the Governor of the Bank of France in the interests of the money markets of the two countries".

While not desiring to attach too much importance to the foregoing, it nevertheless conveys some grounds of inference of a much more conciliatory British attitude than has existed for some time in Franco-British financial operations. The facilities apparently offered by the Bank of England to the Bank of France while perhaps not unexpected nevertheless result in strengthening the French position and the fact of the semi-official announcement coming at this particular moment is significant. As our British friends usually demand a quid pro quo for such facilities, it is to be presumed that this has not been overlooked in this particular, though at the present writing we have no information as to the importance or bearing of the French concession.

The recent strengthening of the French franc, while perhaps only temporary, cannot be taken as a reassuring sign by the Germans, and as much support to the German heralded claim that their "passive resistance"

to date has brought France to the edge of a financial abyss. The situation regarding the strengthening of the franc is so nebulous that we would not care to express any opinion as to causes. The sentimental factor as concerns the position of the franc is of far-reaching importance. It is understood that there were signs of a certain hesitancy on the part of the French public in subscribing to new internal loans and on this account, and as a measure of supporting confidence, the French Government has been operating to some extent in exchange markets. It is also understood that the financial arrangements of large groups of Americans incident to their annual visit to France has had a certain effect on the improvement of the franc. It goes without saying that even a temporary strengthening of the franc during the comparatively short period during which American tourists are purchasing their francs carries with it a substantial benefit to France at the expense of the tourists. The improvement of the franc due, to a certain extent, to large purchases in America has been mystifying to everyone. In this connection, Bradbury in a somewhat jocular frame of mind remarked to us that "America has already paid Europe through her purchases of marks a large proportion of Europe's debts to America. I note by ~~the~~ recent heavy purchases of francs in New York that America is now contemplating paying Europe the balance of what Europe owes her by purchasing francs". From what certain American newspaper men tell us, it is apparent that Bradbury made about the same jocular remark to them.

At the top of page 9 in our letter of March 16th we incorrectly typed the approximate value of restitution deliveries to France and Belgium at 2,700,000,000 gold marks. This figure should be corrected to read "francs" not "gold marks". We also omitted from consideration the value of the interests of the German Government and her nationals in public utilities and concessions handed over to the Commission in accordance with the provisions of Article 260 of the Treaty. The Commission demanded all of such interests and has all of them on hand, including many "wild cats". Germany will be credited with the proceeds, if there are any proceeds, but the credit does not seem likely to be substantial. There is no way of estimating it. It cannot possibly represent the real value of the property for neither the Commission nor the Allies can handle or realize on it to advantage. In addition, all the German submarine cables have been turned over and Germany will get credit for them. It is difficult to approximate what they are worth. However, the security under Article 260, the cables and various other odds and ends which might be added to the presentation, do not constitute important factors when you are talking about billions.

It is perhaps pertinent to venture some views predicated on the soundness of our estimate of today's situation as expressed in this letter. If the British are able to obtain, or have obtained, some assurances of an eventual sane French line of conduct after they have forced the Germans to terms, we feel great good would be accomplished by the British, and outsiders in general, exercising indirect pressure in forcing Germany to make the earliest direct and unequivocal overtures for a settlement to France. Eventually, Germany must bow down, and every day that is lost before reaching the settlement carries with it irretrievable economic and financial waste. French public opinion demands "the victory", and if safeguards for French future conduct exist, or are obtainable, in our judgment, every effort should be made to force a termination of the present Great Economic War.

Faithfully yours,

The Hon. Benjamin Strong,
New York City.

John A. L. Jr.

24 Mars 1923.

EMISSION par le GOUVERNEMENT ALLEMAND
d'un EMPRUNT INTERIEUR PAYABLE en OR et
GARANTIE de la REICHSBANK.

Avis du Service Juridique.

- I -

Le 16 Mars 1923, la Commission des Réparations a soumis au Service Juridique pour avis les deux questions posées au cours de la séance relativement (1) à l'émission par le Gouvernement allemand d'un emprunt intérieur payable en monnaies étrangères, (2) au droit pour la Reichsbank, ou égard à la loi qui régit sa constitution, de garantir un pareil emprunt.

- II -

PREMIERE QUESTION :- La première question paraît au Service Juridique soulever le problème des droits que l'Article 248 et le paragraphe 12 b de l'Annexe II confèrent à la Commission des Réparations au regard soit du produit de l'émission, soit du service et du remboursement des titres de l'emprunt envisagé.

C'est ^{ce} à double point de vue que le Service Juridique croit devoir l'envisager successivement. Il croit devoir rappeler à cette occasion à la Commission des Réparations qu'elle ne possède pas, au sujet de l'Article 248, un pouvoir souverain d'interprétation.

A. Produit de l'émission de l'emprunt.

Sur ce point le Service Juridique est divisé.

Les membres américain, belge et britannique estiment

qu'exiger que telle ressource déterminée de l'Allemagne - en l'espèce le produit de l'emprunt - soit affecté à l'acquittement de ses obligations de réparation - équivalant à la saisie par la Commission des Réparations de cette ressource. Or, ils considèrent que ni l'Article 248 ni le paragraphe 12 b de l'Annexe II ne confèrent à la Commission des Réparations le droit de saisir un bien ou revenu déterminé du Gouvernement allemand. L'Article 248 n'attribue à la Commission des Réparations aucun droit réel sur les biens gouvernementaux allemands, et le paragraphe 12 b de l'Annexe II n'accorde pas à la Commission des Réparations de droits à l'encontre de l'Allemagne, mais lui confie seulement la tâche d'examiner le système fiscal allemand afin de s'assurer (à tout le moins pour la présente discussion) que les dispositions de l'Article 248, qui donnent à la Commission des Réparations un droit de priorité au regard des autres créances de l'Allemagne, soient respectées.

Par contre, les Juristes français et italien estiment que la Commission des Réparations qui, d'une part, a été chargée par les Puissances alliées et associées d'assurer, par l'intermédiaire du Comité des Garanties, l'exécution de l'Article 248, qui, d'autre part, doit s'assurer que "tous les revenus de l'Allemagne soient affectés par priorité au paiement des sommes "dues par elle à titre de réparations", est en droit de demander que tels revenus normaux ou exceptionnels dont elle sait que l'Allemagne bénéficie, par exemple du chef de l'émission d'un emprunt, soient affectés à l'acquittement d'une fraction exigible de sa dette de réparations.

A l'appui de l'exercice de ce droit dans les conditions actuelles, la Commission des Réparations peut se prévaloir de cette double circonstance que le Gouvernement allemand, après avoir

failli à l'exécution des obligations résultant de l'état des
financements, vient de se procurer des ressources nouvelles et con-
sidérables.

B. Service ou remboursement de l'emprunt.

Sur ce point le Service Juridique est unanime à formuler
l'avis suivant:

L'Article 248, intimement lié au paragraphe 12 de l'Annexe
II, doit être interprété comme interdisant à l'Allemagne, tant
que ne sont pas remplies les obligations courantes que lui impose
le Traité, spécialement en matière de réparations, d'assurer,
sans l'assentiment de la Commission des Réparations, avant d'avoir
satisfait auxdites obligations, le service ou le remboursement
d'un emprunt intérieur ou extérieur non approuvé par la Commission
des Réparations.

L'acquiescement, une année donnée, des intérêts, et le
remboursement du capital de cet emprunt par préférence au service,
pour cette même année, de la dette de réparations constituerait
de la part de l'Allemagne une violation du Traité.

La Commission des Réparations peut donc valablement
s'opposer au service ou au remboursement, par priorité sur les
réparations, de tout emprunt intérieur ou extérieur émis par le
Gouvernement allemand comme aussi à tout prélèvement sur les biens
et ressources du Reich qui, destiné à couvrir la Reichsbank des
charges que lui aurait imposées la garantie d'un tel emprunt,
porterait atteinte à la même priorité.

- III -

Le Service Juridique est également unanime à ajouter
que, en application de l'Article 240 du Traité de Versailles, par
lequel le Gouvernement allemand s'est engagé à fournir à la Com-
mission "tous les renseignements dont elle pourra avoir besoin

"sur la situation et les opérations financières de l'Allemagne et de ses ressortissants", la Commission des Réparations est fondée à demander au Gouvernement allemand tous éclaircissements qu'elle jugera utiles sur l'utilisation du produit de l'emprunt envisagé.

Elle pourra, à cette même occasion et en vertu du même texte, lui demander^a quelles conditions de remboursement ultérieur par le Reich la garantie de la Reichsbank à l'emprunt envisagé a été consentie.

- IV -

DEUXIÈME QUESTION - La seconde question paraît au Service Juridique intimement liée au problème du caractère juridique de la Reichsbank.

Si cette Banque constitue un organisme privé, propriétaire en tant que tel de son actif, il n'apparaît pas au Service Juridique que la loi qui l'a instituée et^{qui} régit sa constitution soit de la compétence de la Commission des Réparations, ni que la Commission des Réparations puisse intervenir pour discuter la validité de la garantie donnée par cette Banque à un emprunt émis par le Reich. Seuls les tribunaux allemands auraient qualité pour interpréter les statuts de la Banque et décider si, en garantissant un tel emprunt, elle a outrepassé les pouvoirs qu'ils lui confèrent.

Si, par contre, la Reichsbank n'est qu'un organe de l'Etat, si le Reich est le véritable propriétaire actuel ou en puissance de l'actif de la Banque, son encaisse doit être assimilée aux "biens et ressources" du Reich au sens de l'Article 248. Dès lors les observations qui précèdent concernant l'emploi de ces biens et ressources au service et au remboursement de l'emprunt envisagé s'étendent à leur affectation à la garantie de ce même emprunt.

Cette seconde question paraît donc au Service Juridique intimement liée à la solution que comporte le problème qu'il a déjà envisagé dans son avis N° 207 (20 Avril 1921) du caractère privé ou public de la Reichsbank.

Le Service Juridique ne peut à ce sujet que s'en référer aux avis divergents qu'il a émis à cette occasion. (Le Juriste américain absent lors de la discussion de ces avis, a depuis lors donné son adhésion à l'avis exprimé par ses collègues belge et britannique).

Toutefois, le Service Juridique croit devoir y joindre les observations suivantes que lui suggère la Loi du 25 Mai 1922 qui a modifié les Statuts de la Reichsbank.

Les Juristes américain, belge et britannique se permettent d'ajouter qu'ils estiment que la Loi allemande du 25 Mai 1922 permet, plus difficilement encore que précédemment, de soutenir que les biens et ressources de la Banque constituent des biens du Gouvernement allemand. Cette loi a été promulguée par le Gouvernement allemand pour satisfaire à la demande, formulée par la Commission, que soit assurée la complète indépendance de la Reichsbank; et, dans son rapport du 17 Juin 1922 (C.G. 228 e), le Service Financier a déclaré que la loi avait, à cet égard, entièrement rempli l'objet que se proposait la Commission.

Il convient, en outre, d'observer que la Commission n'a jamais ni prétendu que les biens de la Banque fussent des biens du Gouvernement allemand, ni tenté d'étendre ses pouvoirs ou ceux du Comité des Garanties au contrôle des opérations de la Banque. La Commission ayant exigé que des modifications fussent apportées à la constitution de la Banque, ayant tacitement accepté ces modifications comme satisfaisantes, et n'ayant jamais soulevé le point de vue que les biens de la Banque fussent des biens du

Gouvernement, est maintenant dans son droit pour soutenir que, tous comptes faits, la Banque n'est qu'une institution gouvernementale.

Le Juriste italien, quoique maintenant son avis antérieur en ce qui concerne le statut juridique des biens de la Banque, s'associe à cette dernière observation.

B. Le Juriste français constate toutefois que si la loi du 25 Mai 1922 a soustrait la Direction de la Banque au Reich et au Chancelier et déclaré qu'elle sera désormais "exercée exclusivement "par le Conseil des Directeurs", le texte nouveau ni n'accroît les droits des actionnaires, ni n'a eu pour conséquence de priver la Reichsbank de son caractère d'institution publique, véritable organe de l'Etat.

La Direction de la Banque continue de s'exercer par l'intermédiaire de membres nommés à vie par le Reich, dont il n'est pas spécifié qu'ils doivent être actionnaires et sans que à cette Direction les actionnaires soient admis à prendre aucune part effective.

L'actif de la Banque ne saurait être considéré comme étant la propriété ni des membres de ce Conseil de Direction ni des actionnaires ou porteurs de parts (Autoilseigner), dès lors que le Reich peut à son gré, par un rachat obligatoire de leurs parts à leur valeur nominative, leur retirer tout droit au partage éventuel de l'actif. Le Reich conserve donc au regard de l'encaisse-or de la Banque un droit de propriété, au moins en puissance, auquel la Loi de 1922 n'a apporté aucune restriction.

Par ailleurs, il apparaît que la Loi nouvelle n'a pas, en fait, réduit l'étendue des pouvoirs discrétionnaires que le Reich exerçait sur la direction de la Banque.

Depuis lors, en effet, d'une part, sur la seule requête du Reich et sans opposition de ce Conseil de Direction prétendument souverain, l'émission des billets de la Banque n'a cessé de s'accroître,

d'autre part, la Banque a accordé à un emprunt émis par le Reich une garantie que ne prévoient pas ses statuts et dont il est clair qu'elle aura pour conséquence de prélever, au seul bénéfice du Reich, une fraction appréciable de l'encaisse or de la Banque.

Il apparaît donc au Juriste français que la Reichsbank ne possède pas les caractères d'indépendance permettant de lui attribuer une personnalité propre distincte de celle de l'Etat dont elle n'est, à son sens, qu'un démembrement.

Il est vrai que le Gouvernement allemand a représenté la loi de 1922 comme ayant assuré, conformément aux désirs exprimés par les Puissances alliées et associées l'indépendance de la Reichsbank et que la Commission des Réparations n'a jamais formulé, au sujet de cette loi, de réserve et de critique.

Mais le juriste français estime qu'il n'appartient qu'à la Commission des Réparations d'interpréter le silence qu'elle a observé à ce sujet et de décider s'il peut être considéré comme constituant une acceptation implicite ou expresse du point de vue du Gouvernement allemand.

24 Mars 1923.

(Signé): Jacques LYON.

J. FISCHER WILLIAMS

Hugh A. RAYNE

J.M. MARX

Massimo PILOTTI.

N.B. Le Service Juridique se permet de référer la Commission des Réparations à ses avis Nos 207 et 418.

HG

GREEN

Paris,
Dated March 26, 1923
Recd. 6:45 p.m.

Secretary of State,
Washington.

152, March 26, 6 p.m.

B-869. Our B-867, omitted payment to Belgium February 24th,
420,000 French francs proceeds sales rights and interests article 260.
Miscellaneous reparation receipts March 17th to 24th Luxemburg coal
34,849 pounds credit Belgium. Boyden.

HERRICK

WSB

March 26, 1923.

My dear Colonel Logan:

I have for acknowledgment your two letters of March 8 and 9. For your information I desire to say that Mr. Strong left for Colorado Springs, Colorado, two weeks ago for six months, as the doctors felt that he was making little progress in the east on account of the climate which affected his throat. They diagnosed his case as chronic laryngitis, and felt that a change of climate would do him a world of good.

I sent your personal letter of March 8 to Mr. Strong but kept the other enclosures, as I felt that it would not be well to burden him with any matters on reparations until he was better able to attend to business affairs.

Yours very truly,

Secretary to
Mr. Benj. Strong.

Colonel James A. Logan, Jr.,
18 Rue de Tilsitt,
Paris, France.

GB.MM

JAMES A. LOGAN JR.

Paris, 18 rue de Tilsitt.
29 March 1923.

Personal & Confidential

My dear Ben,

The question of French Government credits for the occupation of the Ruhr will come before the French Parliament tomorrow. Yesterday M. Poincare was heard by the Finance Committee of the Chamber where he made a general expose of the political and economic position of the Ruhr occupation. He frankly admitted the difficulties encountered and the minor importance of results to date. He stated that German opposition could only be overcome "by prolonged and stable occupation" carrying with it a program of economic blockade with stringent provisions regarding export and import licences. M. Poincare insisted that the large German industrials were the "soul of the German resistance", "that they had tried on numerous occasions to get in direct conversation with the French Government", but that "these efforts had not resulted in any official proposals coming from the German Government itself". M. Poincare again restated his past position: "that if unofficial proposals of the same order were suggested by Neutral or Allied Powers he would not be able to receive them", and in addition "he knew definitely that no such proposals would be made to him". He said "the French and Belgian Governments are in perfect accord for holding the guarantees they had seized until payment of the debt", and that "the evacuation of the occupied territories will be in proportion to the payments made, and in particular the evacuation of Essen will not be considered until the last payment of reparations has been effected". He said that "the railways in our hands constitute our best guarantee". He concluded his remarks by the statement that "the occupation of the Ruhr will be long, stable and remunerative".

It is just announced that "the Interallied High Commission in the Rhineland has ordered the seizure of all material and merchandise lying in occupied German territory due to be delivered as reparation in kind". The decree covers all goods ordered for the reconstruction of the French devastated regions whether from the occupied territory or not so long as the Allied authorities are certain that such goods are to be found in the occupied territory. Another class of goods specified in the Interallied decree is that comprising orders which have been fully paid for and executed but which have not yet been delivered.

The foregoing is a logical step under the Franco-Belgian sanction policy and one which we have already forecasted. The Reparation Commission has been for some time past in receipt of various orders from the French and Belgians for deliveries in kind to be effected by Germany. Such orders are being transmitted by the Reparation Commission to Germany by a majority vote, with the British Delegate abstaining. Unquestionably a large number of these orders are presented so as to give a certain legal justification for subsequent seizures in the occupied area. The German Government as reported refuses to make any deliveries in kind on French or Belgian account. We are

informed that lists of inventories of raw and finished and semi-finished material existing in the occupied area are being assembled to serve as the basis for "orders" to be transmitted to Germany through the Commission. In our judgment due to transportation difficulties encountered since the occupation of the Ruhr which to date have not been sensibly ameliorated, the volume of material seized and actually received in France and Belgium will not amount to much in the immediate future. However, these "orders" will "ear-mark" important lots of the existing inventories which will have an important effect when the final solution of the Ruhr question is reached.

The Commission's reports of the quantity of coal and coke actually delivered to France and Belgium justifies an estimate of 25,000 tons of coke and 40,000 tons of coal as being the aggregate receipts for the month of March. Italy, on the other hand, will have received about 200,000 tons of coal for the month of March. The French Government's official announcement of "3,000 tons of coal per day from the Ruhr" is based on the foregoing figures, the coke being expressed in coal value and the Italian supply, to which the Germans have never objected, being added.

During the month of February the British coal market supplied:

- (a) France with 1,372,000 tons or, in other words, 372,000 tons over and above the average normal monthly supply of 1,000,000 tons;
- (b) Belgium, with 424,000 tons. It will be remembered that prior to the Ruhr occupation Belgium received its supply from the Ruhr without the necessity of British purchases;
- (c) Italy with 675,000 tons or, in other words, approximately 175,000 tons over and above her normal monthly supply from the British market of 500,000 tons;
- (d) Germany with 1,000,100 tons, an unusual and very substantial purchase of British coal, made necessary by the closing off of the Ruhr supply to Germany.

The situation in the Saar Basin which it will be remembered produced between 600,000 and 700,000 tons of coal per month for France has recently improved somewhat. The labor strikes in this coal basin which started at the time of the Ruhr occupation have been partially broken, and reports indicate that some of the miners are returning to work. However, production is still far below normal.

As concerns war damages to France, the following figures communicated within the last few days to the French Parliament by the Minister of the Liberated Regions are of interest. According to this official statement the approximate figure on account of war damages to be paid to those who have incurred damages in the ten devastated French departments are as follows:

Aisne	15,808,877,000
Ardennes	5,663,371,000
Marne	6,344,677,000
Meurthe-et-Moselle	4,395,762,000
Meuse	4,137,030,000
Nord	25,692,492,000
Oise	2,412,187,000
Pas-de-Calais	13,453,770,000
Somme	7,366,412,000
Vosges	<u>515,053,000</u>

Total ----- 85,789,631,000

According to the presentation made in the official statement the above total is divided into the following categories, viz: Requisitions, 8,769,831,000 francs; Personal Property, 18,407,934,000 francs; and Real Property, 58,611,866,000 francs. The following is the official table showing the settlements effected against the capital indemnity of war damages to December 31, 1922:

Aisne	5,891,196,000
Ardennes	2,645,644,000
Marne	2,381,433,000
Meurthe-et-Moselle	2,811,912,000
Meuse	1,443,912,000
Nord	16,514,837,000
Oise	842,397,000
Pas-de-Calais	6,095,150,000
Somme	2,352,682,000
Vosges	<u>286,316,000</u>

Total ----- 41,265,276,000

According to the official figure the total of the sums paid up until December 31, 1922, was approximately 48% of the damages. The payments made for damages to Personal Property figure in this total at 12,903,218,000 francs; and those effected to damages to Real Property to 20,361,958,000 francs. Under this last heading 14,221,778,000 francs have been paid on account of industrial damages and 14,140,180,000 francs on account of non-industrial damages.

Herewith, as Exhibit A, are copies of Annexes 1783 a, b, c, concerning the application of Article 248 of the Treaty of Versailles to the gold loan recently issued by the German Government. The question came before the Commission at its meeting on March 27th. At this meeting it was unanimously decided to address a letter in the following terms to the German Government:

"With reference to the extraordinary receipts which are being attained by the German Government from the recent issue of a gold loan, the Reparation Commission calls the attention of that Government to the provisions of Article 248 of the Treaty of Versailles.

"The fact that the German Government has not thought it proper to ask for an exception under that article makes it necessary for the Commission to make an express reserve as against subscribers to the loan no less than other parties, of its right of priority against any funds which may be assigned by the German Government to the payment of interest or repayment of capital of the loan in question, more particularly if the extraordinary receipt itself is not applied to the discharge of the reparation annuities".

This letter was forwarded the same day, signed by Bradbury, and Barthou on behalf of the Commission. It was not the intention of the Commission to make public the Opinion of the Jurists. However, a Paris newspaper, in some mysterious way, obtained a copy of the Opinion and published it in its full text, with the result that the Commission itself was practically forced to issue it as a public document.

Faithfully yours,

James A. Ryan Jr.

JAL/BD
1 encl.

The Honorable Benjamin Strong,
Governor, Federal Reserve Bank of
New York, New York City.

Cable 4/15/23

JAMES A. LOGAN JR.

Paris, 12 April 1923.
18 rue de Tilsitt.

Personal & Confidential.

My dear Ben:-

M. Loucheur's visit to London the first days of April has attracted much public attention and opened a great field of surmise in the European press. We are informed that M. Loucheur called on M. Poincare before leaving for London, and that the latter had full knowledge of M. Loucheur's intention to discuss his views on the German settlement question with British political leaders during his London visit. We also know that upon M. Loucheur's return from London he called on M. Poincare and gave the latter an account of his London discussions. Immediately after the latter interview with M. Poincare, M. Loucheur went to Rambouillet where he saw M. Millerand, the President of the Republic. The question remains open as to how much participation, if any, M. Poincare had in the Loucheur visit to London, and as to the individual views held by MM. Millerand and Poincare on the situation created by the visit.

M. Loucheur upon his return from London, April 7, made the following statement:

"I went to England without any mandate of the Government, but before my departure I talked with M. Poincare of my intention to meet certain members of the British Government among whom were some friends of long standing. I have seen them and have discovered from these conversations that the position of France is beginning to be better understood by English opinion. I am persuaded that an accord is possible without sacrificing the legitimate interests of France and her Allies concerning both reparations and security. It is this personal impression that I reported to M. Poincare this morning. I will add that all with whom I have talked in England appear to understand that France and Belgium have formally decided to carry through to the end the operation which they have undertaken, and I hope that I have succeeded in dissipating certain objections which existed in Great Britain against the French policy and those directing such policy."

When the first reports appeared in the French press of M. Loucheur's London visit, both Downing Street and the Quai d'Orsay issued brief communiques to the effect that "M. Loucheur's visit to London, and

his talks with various British political leaders, was purely personal in character and M. Loucheur had no official mandate from the French Government." It is felt in some quarters that the mild tone of the Quai d'Orsay communique has some special significance. This feeling is somewhat emphasized due to the fact that to date no other definite public statement of objection has been made by M. Poincare. However, within the last few days the Quai d'Orsay has been intimating that M. Poincare intends making an important declaration in his speech which he proposes making at Dunkirk Sunday, April 15. The Poincare press intimates that this speech will contain a statement reaffirming Poincare's past position concerning the German settlement. The Opposition press, on the other hand, while forecasting some mild form of reaffirmation of the past policy by M. Poincare, nevertheless intimates that the tone will be mild and, in fact, an indication of M. Poincare's leaning towards the Loucheur thesis.

Shortly after M. Loucheur's arrival in London the attached article (See Exhibit A) on the "Reparation Problem, Need of Solution, Possible Schemes" appeared in the "London Daily Telegraph" under date of April 5, 1923. This article has attracted wide attention in the French press, it being assumed as having been inspired by the Loucheur visit, and as containing the skeleton of his views on the German settlement question. In our judgment, and from our previous personal conversations with M. Loucheur, we are inclined to accept this article as portraying, on general lines, the Loucheur scheme of settlement. M. Loucheur being, however, a very adaptable character we would not care to subscribe to the view that this particular scheme is his final and definite one.

M. Loucheur's London visit has created some feeling in Belgium for the following reasons, as explained to us by M. Delacroix. About a month ago, M. Jaspar, the Belgian Minister of Foreign Affairs, visited Milan for the purpose of meeting Signor Mussolini and, according to M. Delacroix, using his best efforts to bring the Italians back into the joint Franco-Belgian action against Germany. Before this visit was undertaken, M. Theunis notified M. Poincare, asking if the latter had any objections. It was only after the assurances of there being no objections on the part of M. Poincare that M. Jaspar made the visit. The Belgians claim that in view of the foregoing they were entitled to at least a notification from M. Poincare that M. Loucheur contemplated making his London visit, as well as some information as to what M. Loucheur told M. Poincare he proposed doing while in London. The first the Belgians knew of the visit was the published press reports and the Loucheur statement that: "Before my departure, I talked with M. Poincare of my intention to meet certain members of the British Government." The position of the Theunis Government in Belgium is delicate; the Belgian Government feels that M. Poincare's failure to advise M. Theunis in advance of M. Loucheur's intentions was somewhat discourteous and, in addition, they are suspicious that this visit, in fact, has some official significance. As soon as the French had knowledge of this Belgian irritation, M. Poincare telegraphed M. Theunis to the following effect: "The ex-Minister of the Briand Cabinet was not charged with any official mission whatsoever and the French Government's reparation policy has not been changed." There was, however, so much feeling stirred up that M. Poincare invited M. Theunis to come to Paris to

meet him, which meeting will be held tomorrow.

The Belgians are especially suspicious of any activities of M. Loucheur. This suspicion dates from the time of the Loucheur-Lloyd George conversations at Chequers the latter part of November, 1921, preceding the Cannes Conference. It appears that at the time of the Loucheur-Lloyd George meeting the two drew up a scheme for reparation settlement without the knowledge of the Belgians which, in effect, cancelled the "Belgian priority". It will be remembered that this scheme also embraced a plan for the settlement of inter-allied indebtedness through the exchange of reparation C bonds. The fact that M. Loucheur and Mr. Lloyd George, without consulting the Belgians, had agreed at Chequers to scrap the "Belgian priority" came to the knowledge of the Belgians at Cannes, and led to some bitterness of feeling between the present Belgian Government and the Briand Government. However, when M. Poincare came in power on the fall of the Briand Government the Belgians' fears concerning their "priority" were dissipated by the assurances of M. Poincare. However, this same fear has come to the front again, due to the somewhat nebulous position of the Loucheur visit. The Belgian Government is fearful that this visit in some, either direct or indirect, way has official significance, and the fact that M. Loucheur is involved leads them to fear another attack on the substantial outstanding unsatisfied balance of their "priority". From what M. Delacroix tells us, it appears that the question of the "Belgian priority" has great political importance in Belgium, and any interference with it at this time, and particularly after Belgium had somewhat reluctantly joined with France in the Ruhr adventure, could only result in the fall of the Theunis Ministry.

Back of all this Belgian suspicion there is the underlying Belgian feeling that their position as a "Great Power" is being prejudiced by France's lack of consideration. They have been more or less treated as a "Small Power" by the British Government since they definitely joined up with the French during the Prime Ministers Conferences in Paris in January, 1923. They are now afraid that France, having taken them into her camp, will in turn treat them as a "Small Power", and their amour propre is in consequence affected.

On the other hand, inner French circles were suspicious of the Jaspar-Mussolini meeting at Milan. These circles have not entirely accepted the Theunis statement that this visit and conversation related only to an endeavor on the part of M. Jaspar to bring Italy back into the Franco-Belgian Ruhr occupation camp. There is some feeling that, while ostensibly the meeting was for this purpose, practically, it constituted an endeavor on the part of Belgium to join up with Italy so that the two latter Powers could act jointly as go-betweens in the Franco-British and Franco-German controversies.

There is evidence of a growing feeling in France that an early solution of the German question must be reached. This feeling which so far has been inarticulate and hesitating will, as a result of the Loucheur visit, become more articulate and pronounced. Those who, in the past, have been afraid to come out in the open against the Poincare thesis, will be encouraged

by the somewhat bold attitude of M. Loucheur. Already, the announcement has been made of the following interpellation of the Government in the Chamber of Deputies on the question: "Why did M. Loucheur go to London, and why did he conduct himself there as if in fact he were the Premier of France?" This interpellation while directed against both M. Poincare and M. Loucheur will have the effect of widening the scope of past parliamentary debates concerning the German settlement question and on this account has some significance. It is apt to be embarrassing to M. Poincare, for M. Loucheur during the interpellation will probably advance some general scheme of settlement which may in turn force M. Poincare to definitely state his plan of settlement. It would be difficult for M. Poincare to definitely state any practical plan of settlement at this time without the loss of some support in the French Parliament. On the other hand, if he sticks to generalities following the lines of his past thesis, and if M. Loucheur in turn states a plan, an internal controversy of rapidly growing importance will be started. There are many who feel that M. Loucheur's London visit was largely dictated as an internal French political manoeuvre designed to ultimately give him the Premiership. M. Loucheur's position is strengthened by the underlying phase of his policy of effecting a Franco-British rapprochement which, though yet undefined in the public mind, is nevertheless a popular conception. On the other hand, those who support the past Poincare thesis widely proclaim that "the Loucheur action in going to London and advancing plans diametrically opposed to French public feelings and opinion can only result in his definite elimination as a political factor in France".

Certain recent speeches of members of the French Ministry are of some interest in the present situation. On April 3, M. Magino, the French Minister of War, in a speech before the National Congress of the Union Federale des Associations de Mutiles, made the following statement:

"We went into the Ruhr solely to get paid, to obtain temporary possession of securities safeguarding such payments, and today we know that if we had not gone in, Germany would have tried to obtain a moratorium for some years, and that at the expiration of such delay we would have found Germany armed to the teeth against us and saying 'You want money, come and take it'."

On April 9, M. de Lasteyrie, the French Minister of Finance, in a speech made at Turin during the inauguration of a monument to the dead soldiers of the war stated:

"German propaganda has taken the pretext of the occupation of the Ruhr to denounce French policy once more as imperialistic. This is an abominable calumny. France has never tried in her occupation of the Ruhr to follow the ends of conquest and annexation. France has never wished to take even the smallest portion of German territory. She desires only one thing: to obtain reparation payments to which she has the right by forcing Germany to hold to her engagements."

From the German side, Herr Cuno, in a funeral oration in the Reichstag at the time of the ceremonies for the German nationals killed in the recent Essen incident, made the following statement:

"We have repeatedly stated that we are ready for negotiations on terms of freedom, honor and equality. We have pointed out the practical way of solving the reparation problem which the invasion of the Ruhr has made almost insoluble. We have expressed a desire to send a proposal to Mr. Hughes who guides the foreign policy of the United States, but we were not heard. Everything was done to avoid the invasion of the Ruhr, or to end it as soon as possible, nor shall we in the future omit to do anything that can restore peace and freedom to our country; and even now when we are standing before the graves of these heroes we are ready to enter into negotiations on terms of equality and free from all compulsion, but peace and freedom must be guaranteed or else the sacrifices made in the Ruhr and the Rhineland will have been made in vain. Reparations must be limited to what can be fulfilled. The soil in which the eleven heroes are being buried today must be liberated from the hands and feet of the enemy. Those who are languishing in prison, or in exile, must be able to return to their homes and freedom, and no settlement can be accepted that lays hands on the Ruhr and the Rhineland in a territorial or constitutional sense."

A press report in remarking on the foregoing states:

"In other words, the German Government agrees to submit unconditionally to the decision of an impartial international committee which will decide the maximum reparations Germany is able to pay. It also agrees to sound international money markets with a view to obtaining a loan the proceeds of which will be handed over to France or the Allies as immediate advance payments in cash. Furthermore, the German Government agrees to provide all the guarantees the Loan Syndicate may consider necessary. It agrees to enforce the co-operation of business and industry by special legislation and to submit to interallied financial control. This declaration of the Chancellor is the most important step in the direction of peace that has as yet been made in Germany."

We would not desire to subscribe to all the deductions drawn in the foregoing newspaper report from Herr Cuno's speech. These deductions are, perhaps, the ones that Herr Cuno would like to have the outside world draw from his remarks. On the other hand, the actual remarks which he made, and which are obviously made for internal German consumption

are susceptible of the old construction, that:

"No German plan until French troops are entirely withdrawn from the Ruhr."

There is apparent some wobbling in the German position on this latter question, which was shown somewhat clearly in Herr Rosenberg's speech in Berlin the day before Herr Cuno's speech in Munich. The effects of Herr Rosenberg's speech were: "No German plan until such time as the French had agreed to a definite plan for the gradual withdrawal of French troops from the Ruhr, following agreement as to settlement."

The actual position today is very difficult to fathom. As will be seen from the foregoing there are many unknown factors. The power and duration of the German passive resistance has been a surprise to all---even including the Germans themselves. From all sides we gather that it still remains the intention of the mass of German opinion to support the Cuno thesis, notwithstanding the consequent tremendous economic losses, for a considerably longer time than was originally anticipated. However, the position of the mark will play an important factor in their ability to hold out. The German Government so far has been able to hold the mark, notwithstanding the fact that in the last four weeks the printing press has been busy, and the amount of paper currency quadrupled. How long the Germans will be able to keep this up, and what will happen when the inevitable break occurs, rests to be seen. At the present writing, we do not attach undue importance to the present effects of the Loucheur incident on external French policy. The glimmer of hope in the present situation, therefore, reduces itself, in our judgment, to the honest cordiality with which French public opinion receives all indications of a Franco-British rapprochement. The French public want an early solution, and are commencing to realize that an early solution is only possible by their getting together with the British and jointly forcing an early settlement on Germany.

Faithfully yours,

James A. L. Jr.

JAL/AJG

Encls.

The Honorable Benjamin Strong,
Governor, Federal Reserve Bank of New York,
New York City.

JAMES A. LOGAN JR.

Paris, 19 April 1923.
18 rue de Tilsitt.

Personal & Confidential.

My dear Ben:-

The French and Belgian Prime Ministers met in Paris on April 13 and 14th, 1923, to discuss the Ruhr situation. At the conclusion of these meetings the following communique was issued:

"The Belgian and French Ministers met again this morning. They have prepared a common instruction to be addressed to their High Commissioners in the Rhine Territories and to General Degoutte for the working and control of the Central Accounts Office established in newly-occupied regions, and for the special application of the products of fines, seizures of funds, etc.

"It has been decided that the merchandise and different products seized in the occupied regions to cover France and Belgium for the orders of the two Governments, or persons under their jurisdiction, under the head of payments in kind should be directly assigned to them. The surplus of the merchandise and products seized will be sold by the Franco-Belgian authorities. The proceeds of these sales will be paid to the pledges account of which the credit balance, after defraying the different expenses of occupation and administration, is to be handed over to the Reparation Commission.

"The two Governments have maintained the Brussels resolution stipulating that they would not subordinate to mere promises on the part of Germany the evacuation of the Ruhr and the newly-occupied territories on the right bank of the Rhine, but that withdrawal would be effected proportionately with the execution by Germany of her reparation obligations."

At the close of the first day's meeting a short communique was issued to the press. In this press communique it was stated: "that the French and Belgian Governments were resolved to pursue common action in the Ruhr until Germany had decided to make a direct proposition for payment of reparations". This phraseology lent itself to the interpretation that France was prepared to evacuate the Ruhr when a plan of settlement as distinct from the actual execution of obligations by Germany was accepted. This stirred up a good deal

of public excitement in France, and the final communique was for the purpose of strengthening the terms by the statement that the two Governments confirmed the resolution of Brussels which stated that the evacuation of the territories recently occupied on the right bank of the Rhine would not depend upon mere promises of Germany, but would be effected progressively as Germany executed her obligations.

It is understood that the most important conversations of the Prime Ministers were not held in the formal meetings, but around the "white table" at which table M. Loucheur was one of the guests. An important result of the meeting was the creation of a Committee of Experts including the French and Belgian representatives of the Reparation Commission charged with studying the various schemes already put forward and formulating a common plan. MM. Barthou and Delacroix (probably assisted by M. Seydoux, the economic Under-Secretary of the French Foreign Ministry) will not act in their capacity of Delegates to the Reparation Commission, but as experts. It is understood that their conclusions are to be available early in May at which time it is stated M. Poincare will visit Brussels.

We have no information upon which to base the statement that M. Loucheur's visit to London had, or had not, the semi-official support of the French Government. We have already reported that M. Loucheur's view, as expressed to us, was that a practical solution of the German question necessitated British support of France and Belgium. Without some definite plan being drawn beforehand, and reasonably acceptable to the British, their support is not to be expected. It is, therefore, somewhat significant that at least a Committee of Experts has at last been designated to draw up a common Franco-Belgian plan.

There have been some reports circulated to the general effect that the President of the French Republic, M. Millerand, had given more support to the Loucheur London visit than even the most optimistic claim that M. Poincare gave. However, of this we know nothing definite. However, the fact remains that M. Loucheur throughout the conversations of the Prime Ministers in Paris played a role of some importance, but whether this was in response to a desire on the part of M. Poincare for his collaboration or whether a mere internal political manoeuvre, is not clear.

In the foregoing connection it is interesting to refer to the following published letter of M. Loucheur written in response to an invitation to be present at the Congres des Mutiles at Valenciennes, Sunday, April 15, on the same date as the speech of M. Poincare at Dunkirk, viz:

"Mr. President. You understand the great desire I have to be present at the final reunion of your convention. It would be a great joy for me to be present with you and to listen to your wishes, but I am prevented. I would like to have profited by this reunion to join with you in arranging a definite program for your future work. Unhappily, I am obliged to go to Dunkirk, Sunday, where there is to be held a great ceremony, which is to be honored by the

"presence of the Prime Minister. Recent events which certain people have wished to exploit as showing a divergence of opinion between the Prime Minister and myself make it more than ever necessary for me to be at his side on Sunday to affirm our complete unity of views in these great interests of France. You will understand, I am certain."

On Sunday, April 15, M. Poincare made the following speech at Dunkirk:

"After having lived for four years with the single thought of winning the war, we have today the duty of winning the peace. The victory which France has so dearly paid for we have sworn to our dead shall not be lost. And before this monument raised to them we renew once more this solemn oath. It is because Germany did not pay her debts and was doing nothing to pay them, it is because we had already advanced nearly one hundred thousand million francs on their account, that in virtue of the Treaty of Versailles, and after the decisions regularly taken by the Reparation Commission, we seized guarantees and applied sanctions. For the last three years we had constantly exercised patience.

"Patience only brought us disappointments and vexations. To put up with fresh defaults on the part of Germany, to grant her without guarantees the delays she asked for, would have been to put ourselves at her mercy forever. We went into the Ruhr, and the occupation of this rich mining and industrial region has allowed us to make some instructive observations. We have, in the first place, convinced ourselves that Germany could have delivered to us the coal she had refused, since she manages now to do without Ruhr coal; we have had the proof that she could have paid us in foreign values, since she is today employing a considerable quantity of these values to make purchases abroad; finally, we have been able to observe on the spot and to unmask and dissolve the military organizations which the Reich concealed, as it had already done in Upper Silesia, under the inoffensive name of Schutzpolizei; and we have thus acquired the certain assurance that if we had granted to Germany a moratorium for two years without insisting on any guarantee, she would, at the end of that period, have replied to our demand for payment by a refusal and defiance. That is the deadlock to which we should have been fatally driven by a policy of temporizing and weakness. Guarantees that Germany had not wished to give us and that some of our Allies, with the greatest good faith in the world, considered useless, we thought indispensable. What we have seen in the Ruhr has shown us that we were not mistaken. These guarantees we now hold, we hold them solidly, and we shall only withdraw from the newly occupied territories progressively and proportionately with the payment of what is due to us. You may be certain that in thus asserting her

"will and in proclaiming to the world that she was determined to have the faith of Treaties and the conditions of peace respected, France has not lost anything of the esteem of other peoples. She has, on the contrary, become greater in the eyes of those who respect straightforwardness and resolution; and even those among our friends in England and America who had differed from us on the opportuneness of our action have not been able to avoid approving, at any rate, the motives which dictated it, and recognizing the justice of our claims.

"The turn of opinion in our favour which has evidently occurred in the United States and throughout the British Empire - and of which one of your eminent representatives, M. Loucheur, has in the last few days gathered still further testimony - is certainly due in great part to our having shown determination and to having placed our hands with our Belgian friends on what Mr. Bonar Law, when he was in Paris, justly called the jugular vein of Germany. We do not dream, however, of strangling anyone; we have no other ambition than to be paid, and to shelter ourselves from financial disaster.

"The accusations of Imperialism which German propaganda has sometimes succeeded in raising against France in quarters too easily accessible to calumny are only stupid or peurile. No sensible mind can believe seriously that France, which promulgated the Rights of Man and gave to national sovereignty its broadest and most complete expression, has the mad idea of submitting foreign populations to its authority and of taking possession of territories against the will of the inhabitants. Let us dismiss these insanities and continue on our way. Nor will the reproaches of a handful of misguided Frenchmen make us turn aside from the goal which we have set before us.

"It is enough for us to have the support of the country and the approval of Parliament. I am aware, indeed, that certain people who scarcely encouraged us to enter the Ruhr now want to outbid us and denounce the weakness of our operations. They will not prevent us from developing progressively, without haste or fever, but stubbornly the program which the Belgian and French Governments have established in joint agreement and from continuing a task which may prove to be a long one. They will not affect either our coolness or our confidence. I hear other detractors attribute to the occupation of the Ruhr by a rather crude sophism the increase in prices, as if the high cost of living did not depend upon our economic and financial situation, and as if that situation itself did not arise from the many debts which we have had to contract to take the place of payments we should have received from Germany.

"I hear finally of a few momentary pessimists who magnify the smallest incidents, and let themselves go so

far as to encourage by imprudent words the resistance of the Reich. In listening to all these impotent and futile criticisms, I am forced to recall the passage in speech in which Demosthenes severely denounces those bad Athenians who trembled, sighed, and lowered their eyes to the ground at each success of the city, and who, in the moments when fortune seemed to smile on the enemy, promenaded the Agora with looks of triumph. Is it possible that there are, in France, citizens so blind? If there are really a few they are certainly only a negligible minority, and the country, as a whole, is resolute to complete what it has begun. In the necessary enterprise in which she is engaged France will hold firm, as she has done up to the present, without violence and without provocation."

In the earlier part of his speech M. Poincare referred to the English policy in regard to Dunkirk in the seventeenth and eighteenth centuries:

"When England saw, or thought she saw, near her frontiers a military and maritime peril, she did not hesitate (said M. Poincare) to take in the full exercise of her liberty the measures that she for long considered necessary for the defence of her national security. After a war which was carried on for the defence of our respective rights, and which has created an indissoluble community of interests between us, can England be astonished that we should wish, in our turn, to protect our frontiers against further violence and prevent a nation, whose Imperialism seems incurable, from beginning again hypocritically and in the dark to make preparations for invasion? If we needed a lesson of perseverance and obstinacy we should only have to go to our English friends for it."

On Monday, April 16, the German Foreign Minister Dr. von Rosenberg made the following speech in the Reichstag:

"Dr. von Rosenberg pointed to the need felt by the foreign administration for the confidence of the Reichstag, in view of Germany's isolation, and he warned the parties that anyone entrusted with the work of improving Germany's position had at once to get rid of the illusion that Germany had any friends in the world. He paid the usual tribute to the Ruhr population, and represented the incursion of France as the unparalleled spectacle of a strongly armed modern army fighting against a people armed only with an idea. He described the Ruhr population as bearing uncomplainingly the terrors and sacrifices imposed upon them. He declared that if France succeeded in beating these unarmed people to their knees, which France could never do, militarism would be the trump card in politics forever, and only the number of bayonets would decide.

"The fight of the Rhine and the Ruhr, he continued, was not for wood and coal, but for the progress or decline of the idea of right. France's action had sufficiently shown that problems which had, apart from their political side, an economic and psychological side also, were not to be solved by the application of force. The French advance had shattered the return to true peace, and had prevented Germany from cooperating with all her power in the work of reconstruction. France had not ceased to speak of Germany's bad will. Those who accused others of bad will usually claimed good will for themselves, but the House need not be reminded of Germany's experience of that during the last few months.

"Dr. von Rosenberg then traced the stages of the reparation problem since the present Government had taken over the reins of office, mentioning especially the offer made by Dr. Cuno to Mr. Bonar Law on December 9, 1922, proposing cash payments, the stabilization of the mark, economic advantages for French industry, and the proposal that the Rhine States should pledge themselves to America and to one another not to wage war against one another without first taking a plebiscite. The speaker next referred to the offer made by Dr. Cuno in the Hamburg speech of December 31, out of which they evolved the Bergmann plan.

"This was a firm offer of 20,000,000,000 gold marks with interest at 5%, to be raised by way of an international loan, and these 20,000,000,000 gold marks would be increased at the end of four and eight years by fresh sums of 5,000,000,000 gold marks, each, making a total of 30,000,000,000 gold marks if the International Consortium considered it within Germany's capacity. Included in the instructions of Dr. Mayer, then German Ambassador in Paris were additional instructions. The Government was ready to give the loan Consortium every reasonable security.

"All the economic strength of the world of banking and industry had determined to support the Government, in spite of doubts whether the offer might not be beyond Germany's capacity, especially in regard to security and guarantees. The Government was also ready to take legal steps to ensure the whole productive power of the people, as might be necessary, and to do its utmost to stabilize the mark. But these undertakings were hedged with conditions, such as the release of Germany for "unproductive tasks", the removal of import restrictions, the evacuation of Dusseldorf, Duisburg, and Ruhrort, and the early reduction of the Rhine area in occupation. The instructions stated that Germany was determined to go to the utmost limits, provided these were in harmony with her capacity to pay, and as to that he desired an unbiased judgment.

"All these proposals, Dr. von Rosenberg said, had been

"rejected or ignored. France had overrun the Ruhr, destroying communications, paralysed the most powerful industrial centre, and reduced Germany's finances to confusion. He still believed that the solution, which must one day come, would proceed on the basis of these proposals.

"But while the French war of destruction continued, who would dare to make an estimate of Germany's capacity to pay? Though concrete figures could no longer be given, the Government had no intention of remaining satisfied with a negative result. Therefore, it had had recourse to the present proposal made by a well-known statesman (Mr. Hughes) for referring the problem to a committee of the highest financial authorities, independent of all political influence. In the light of this proposal, the Government had addressed Notes to all those neutral Governments whose interest it was to see the problem settled. Its communications to these foreign Governments had led to no practical results.

"Dr. von Rosenberg next proceeded to sketch the offers made by Germany from time to time, and the counter-demands opposed by her creditors, somewhat as though he were recounting a new version of the story of the Sibylline books. In the summer of 1919, in Paris, Germany had offered 100,000 million marks but the French Finance Minister had put the claim at 375,000 million gold marks. Two years later, in London, after a great change had occurred in German trade and industry, the figure demanded was 132,000,000,000 but to this Germany could only offer with a good conscience 50,000 million gold marks. Further, two years later, in Paris, they had come to the point of taking this 50,000 million as a basis for discussion. But what had been possible in London in 1921 could not be done in Paris in 1923. Was there any sign that Paris had profited by these mistakes? Germany's trade and industry were on the decline, and would continue to decline so long as the present conditions prevailed in Europe.

"From this point Dr. von Rosenberg went on to discuss the question of security, flung, as he declared, by France into the discussion. He drew a picture of France, armed to the teeth, demanding security from Germany with an army of only one hundred thousand men, insufficient, he declared, even to protect her own frontiers - an entirely misleading picture of the present state of German arms. As to any question of a neutralized Rhineland, whether as an autonomous province of Prussia, or otherwise, the Foreign Minister would have nothing to do with it. No German Government, he said, could be found that would take a hand in such a scheme, and it was impossible of discussion equally with any project that interfered with German sovereignty.

"Answering M. Poincare's point, Dr. von Rosenberg said that the French Prime Minister must know that the coal

"supplies for unoccupied Germany were only kept up with great difficulty, and that the occupied area, in which industry now lay entirely still, had been a great user of Ruhr coal. The German Government had exported foreign currency because it was the duty of the Government to secure the food of the people, and M. Poincare's objection was nothing more than a confirmation of the fact that the German Government had done its duty in this respect. As for the Schutzpolizei, it was a police force pure and simple, on the lines laid down by the Allies, which, in certain cases, had even rendered protection to French soldiers when they were in difficulties. It deserved the thanks of the country for its self-sacrificing service.

"Dr. von Rosenberg concluded with the expression of a desire on the part of Germany to live as neighbors with France, if France would recognize Germany's right of freedom to exist, her right of sovereignty, and would desist from humiliating her. Otherwise there was only one policy to set their teeth and hold out to the end."

It is difficult to find in either the Poincare or Rosenberg speeches much hope of their presenting a basis for an early settlement. It is true that M. Poincare emphatically disclaims any purpose of annexation. He, however, declared that France will gradually evacuate the Ruhr in the measure that payments are received from Germany, though he made it quite plain that no mere promise of payment would have the effect of inducing the French to relax their hold. M. Poincare makes no new suggestion as to the amount Germany might be expected to pay. Theoretically, he still holds to the formal Schedule of Payments of 1921. It is, however, evident that, practically, he is prepared to admit certain modifications, for, otherwise, there would be no purpose in his having been a party to the setting up of the Franco-Belgian Committee of Experts charged with drafting proposals for a new and "common plan". M. Poincare has taken pains in his speech to leave an opening for ultimate consultation with Great Britain.

So far as Dr. von Rosenberg's speech is concerned, it gives no intimation of what Germany might be prepared ultimately to pay. He, however, refers in outline to the plan Herr Bergmann was to have presented at the January conferences of Prime Ministers in Paris. This plan, Dr. Rosenberg declares, provides for total payment of 30 billion gold marks and for an international loan in support guaranteed by all the resources of German industry. Neither M. Poincare nor Herr Rosenberg has made in their speeches any really effective contribution to the debate, but nevertheless there are some modest changes of direction in policy in both speeches, which give hope for the view that the debate is being narrowed down.

It is interesting to note that during the debate in the German Reichstag following the Rosenberg speech, Herr Stresemann, the German Populist leader, advocated something approaching the Bergmann scheme as a basis for further negotiations. Herr Stresemann stated that Germany's capacity and not Allied requirements, must prove in the long run the standard of

measurement upon which any reparation payment is based. He suggested that the Allies agree amongst themselves to give France priority by renouncing their shares in favor of France. As put by Herr Stresemann, so far as Great Britain was concerned, her policy should be dictated by a question of financial calculation: whether the restoration of Germany's purchasing power was not more valuable than the receipt of reparations. His scheme was that Germany should make a direct offer to all the Allies in which not the total sum, but principally the method of payment should be the main consideration. The purpose of this offer should be for the restoration of the devastated areas. "France placed her needs for this purpose at 26 billion gold marks, Belgium hers at 5 billion gold marks. Germany must give an International Syndicate of Lenders a guarantee for the interest and sinking fund of the loan. Regard must be had for Germany's capacity to pay, and an end must be made to the policy of sanctions. The sums required by France and Belgium together so closely approximate the sum Germany had been ready to offer in January that it must be possible to make a new concrete offer after German industry had been sounded and brought into the service of the guarantees necessary for the flotation of a loan."

Herr Mueller, the Socialist leader, took the position that the Socialists were in agreement with the Government; that the Peace Pact offered at the end of last year need not be regarded as too rigid. As to security, Herr Mueller declared that for the period of a generation Germany should undertake not to wage war of any sort, and that the Socialists were ready to back this security with their whole political and parliamentary influence. In common with all the other speakers in the debate, Herr Mueller, on behalf of his Party, rejected in advance any proposals for neutralizing any sections of territory, or otherwise interfering with German sovereignty.

As to the general position of the German settlement question, the following obviously inspired Quai d'Orsay communication has just appeared, viz:

"From an authorized source we are informed that the French are in fact ready to talk with the British Government and to communicate all information of importance. France is grateful to Great Britain for the attitude she has observed; not only has she done nothing to hinder France, but she has aided France within the limits she originally laid down. Whenever Germany decides to make a direct offer France is ready to listen to it, but the offer can not be made to Great Britain alone, or to any other country alone. Should it be directed to France, Great Britain, and Belgium, and indeed to other countries, France would be content but France will not consider any communication which is not made to France at the same time as to the others. Individuals more or less obscure and pretending to represent this or that interest have been prowling around Paris for two months, but France has nothing to say to them. France can afford to be patient. It is not France which is embarrassed, but Germany. As for the problem of security, it is not urgent.

"France will never evacuate the Rhineland except in accordance with the terms of the peace treaty. Whatever scheme is proposed in substitution for occupation it would be desirable to institute some 'regimes' which would protect us in 10 or 15 years time. But until France is obliged by the Treaty to go, France will remain in the Rhineland."

The foregoing is a veiled invitation for British support. It is also an intimation to Germany that the French do not restrict the presentation of a German plan to France and Belgium alone, but are willing to accept a plan submitted by Germany to any Government the latter see fit, provided that simultaneously such plan be submitted direct to both France and Belgium.

It is interesting to follow certain changes of tone in the French press regarding Great Britain. An editorial in the "Temps", which for some months past has been hypercritical of the British attitude, is interesting. This editorial starts in by discussing the British budget and the difficulties of the British Government's financial position. It then refers to such portion of the speeches in the Reichstag as proposed the cancellation by Great Britain of future participation in reparation payments. It concludes by very flattering references to the British Government's financial effort and states that "it would neither be just nor proper to ask Great Britain to abandon simultaneously and completely her equity in either the debts owed her by the Allies or the credits due her from Germany on reparation account."

M. de Lasteyrie, the French Minister of Finance, has just returned from a visit to the Ruhr, and in an official interview, gives the following details as to cash receipts accruing to the French and Belgians since their occupation of the Ruhr:

"Our receipts were practically zero at the start on account of German boycotting. Such situation could not last indefinitely. The Germans must live and are forced to come to us. Receipts in appreciated currencies resulting from export taxes, translated into francs at the rate of exchange of April 9, show receipts from

Feb. 7 to 20	as	2,640 Francs
Feb. 20 to 28	"	91,016 "
Mar. 1 to 10	"	213,638 "
Mar. 10 to 20	"	204,385 "
Mar. 20 to 31	"	432,358 "

The French Minister of Public Works, M. le Trocquer, also just returned from the Ruhr, has issued the following statement concerning coal and coke secured in the Ruhr:

"On April 17, 8650 tons of coke were loaded on railway cars. Before 8 days we will be loading 10,000 tons of coke a day. It will not be long before we will have reached and even passed the figure of 12,000 tons per day we received in 1922. Transport of coal has also been commenced."

No figures are given for this latter item. The records of the Coal Bureau of the Reparation Commission show an effective delivery to France and Belgium of coal and coke from the Ruhr during the last ten days of between 5 and 6,000 tons per day. Reports of the same Office show that these deliveries are being made from pithead stocks which are not as yet being replenished by German miners.

Faithfully yours,

J. A. L. Jr.

JAL/AJG

The Honorable Benjamin Strong,
Governor, Federal Reserve Bank of New York,
New York City.

REPARATIONS PROBLEM.

Need of Solution

Possible Schemes

From a Diplomatic Correspondent.

There is at least one redeeming feature about the present grave outlook in the Ruhr - the undoubted fact that it is compelling the more serious elements of political opinion in all the countries affected, but in particular here and in France, to realise that an early solution must be found to the twofold problem of Reparation and Security, if a European catastrophe is to be avoided. Despite the financial oddities and hardly disguised annexationist schemes which still appear to find favour with so many of our Paris contemporaries, the movement towards a practical solution is growing apace in official as well as unofficial circles in France, where appreciation is now expressed of the concern so widely manifested in this country for France's future security. I have reason to believe that leading statesmen and soldiers on the other side of the Channel have heartily welcomed this renewed token of our friendship for France, and that, in the case of the statesmen, it has enabled them to consider the issues at stake from a broader and more business-like standpoint than hitherto. The following are indications of the trend of thought now being pursued by the more open and abler minds in influential spheres, not excluding some of the highest in France.

I.- REPARATIONS.

Priority for the devastated regions has repeatedly been urged by successive French Governments. Since it is agreed on all hands that the total indemnity must now be reduced to a relatively modest figure, the argument is put forward with some cogency that the bulk of the payments and deliveries should be devoted to the rebuilding of the regions in question. France's reduced and minimum claim under this head is one for 26 milliard gold marks.

On the other hand, it is proposed that the indebtedness of the Entente Powers to the United States should be transferred to Germany. It is contended that by means of this procedure the British claim against our Allies for an amount proportionate to the liabilities Great Britain has contracted towards America would be satisfied, albeit by the Reich. At the same time, our total renunciation of Reparations proper (in respect of pensions) is hereby postulated. The question may also be asked whether America, who on more than one occasion has declined to accept from the Allies German Reparations bonds in lieu of direct repayment of debt, would acquiesce in the transaction now suggested. One of the answers given is that, inasmuch as the Reich's liabilities of either category would be discharged (so far as cash payments are concerned) by means of a series of international loans; their commercialisation would furnish all the requisite security, better security, indeed, than the credit of any single State. It would be dangerous, however, to bank on the assumption, still freely entertained by Frenchmen, that the United States will at no distant date proceed to condone the French, and even the balance of the British, indebtedness, on the ground of the damage to American trade which full repayment would occasion.

Presumably, the proceeds of the series of international loans would be utilised concurrently, although in varying proportions, for Reparations and debt repayments to the United States. For if such repayments were entirely deferred until after all the Reparations claims had been satisfied, it would be impossible to reduce the capitalised value of the amount to be thus repaid to some 15 milliard gold marks, instead of well over 40 milliards.

The combined joint total for Reparations and debt repayments under the Scheme outlined would seem to approximate to that mentioned in the British, French, and Italian memoranda submitted to the Paris Conference in January last, viz., 50 milliards.

The German industrialists would be required to give substantial guarantees, while Berlin itself has already admitted the need for far-reaching international supervision of the Reich's finances. Germany would, of course, be granted a substantial moratorium.

II.- SECURITY.

It is an easier matter to summarise the views which seem to prevail under this head. There would be a gradual but rapid Franco-Belgian military evacuation of the Ruhr and other recently occupied districts on the right bank of the Rhine, provided that the German payments and deliveries showed regularity. No special regime would be established on the right bank beyond the neutral zone stipulated by the Versailles Treaty. The Western Rhineland, however, would become a federal State, on the same footing as the Republic of Baden or of Wurtemberg, within the Reich, the idea being to end the hitherto Prussian administration, to which the French ascribe the teaching of hatred of France and ideas of revenge. This distinction between the Prussian and the South German may be an illusion on the part of our Allies, but they cling to it, even in regard to the Bavarian, now the Junker par excellence! The Western Rhineland Republic, as constituted in this fashion, would be an integral part of the Reich, politically, economically and administratively. But it would be demilitarized under the supervision of the League, no German troops being either maintained or recruited there.

Finally, the Reich would enter into a solemn non-aggression pact with the other Western Powers, preferably in the shape of a "regional understanding" designed to apply in this instance Article X of the Covenant. In this way, always assuming the regularity of her payments and deliveries by Germany, the Allied evacuation of even the Western Rhineland might be carried out at earlier dates than those stipulated in the Treaty of Versailles.

There remains the question of the Sarre enclave. The most natural course would be to assimilate it to the proposed West Rhinish State within the Reich, while perpetuating France's right to the coal locally produced. But its immediate constitution into an autonomous State under the League is advocated, instead of allowing the enclave's future to be decided by plebiscite after the lapse of fifteen years.

The details of such a scheme as that outlined would doubtless require the most careful scrutiny and threshing out. But, at any rate, its main features, as already sketched, would perhaps warrant its earnest and sympathetic consideration on this side of the Channel.

JAMES A. LOGAN JR.

Paris, 20 April 1923.
18 rue de Tilsitt.

Personal & Confidential.

My dear Ben:-

Maurice Frere, the Chief of the Research and Intelligence Bureau of the Reparation Commission, was recently asked by M. Barthou, the President of the Reparation Commission, to prepare a note for the latter showing to what extent and for how long the German Government would be able to offset the effects of the occupation of the Ruhr and continue its policy of passive resistance. This note was handed to M. Barthou on April 19 by M. Frere. We have been informally and confidentially handed a copy of this note by M. Frere. The note is drafted in French and is a very voluminous one. While we would not care to subscribe to all the opinions expressed and the deductions drawn, we nevertheless feel this document of such interest to warrant our transmitting the following briefed summary of its contents.

M. Frere in his note treats Germany today as divided into two distinct countries (Occupied and Unoccupied Territory) in which conditions of existence are entirely different and in order to show the repercussion upon the economic life of Germany as a whole he divides his paper into two main headings, "Private Economy" and "Public Economy". Under these he attempts successively to expose the damages resulting from the occupation suffered by Unoccupied and by Occupied territory and the possibility for each of these to adapt itself to the new order of things. The salient points of interest in the note follow.

PRIVATE ECONOMY

A. Unoccupied Territory.

The brusque stoppage of Ruhr exports produced a sudden increase of iron and coal demands in Germany, France and Belgium, with a consequent rapid rise of prices in the production centers of England, Czecho-Slovakia, and Poland, which spread to other markets. The Ruhr blockade has thus caused an increase in the prices of manufactured products throughout Europe and the question now arises as to whether German industrials, in view of present high prices, can obtain elsewhere the products previously supplied them by the Ruhr.

B. Combustibles.

During 1922 the unoccupied territories received from the Ruhr approximately 36% of their total consumption of 96,226,000 tons, or approximately 34,600,000 tons. The occupation transforms this quantity into a

a deficit which M. Frere, however, reduces to 21,000,000 tons or approximately a monthly deficit over 1923, of 1,750,000 tons, which must be imported. He accounts for his reduction by reserve coal stocks on hand, proximity of summer months, and estimated 10% reduction of her 1922 total consumption through rigid economy measures, etc., etc. and is satisfied that Germany can purchase her deficit from England, Poland, Czecho-Slovakia, and even the United States. He argues that, should France succeed in satisfying her needs in combustibles out of the Ruhr, this will result in an easing of the English market and make available for shipment to Germany, English coal now going to France. He concludes further that by coke imports and the coking of imported coal, the unoccupied territory can meet her coke needs.

C. Metallurgy.

Despite the lack of dependable statistics, he deduces from the fact that no serious industrial troubles are announced and the shortage of raw materials and half-finished articles has not been such as to shut down industry, that her metallurgical needs are covered to date. What non-employment there has been is attributed to the stabilization of the mark. M. Frere believes that the mineral resources in unoccupied territory, the use for home consumption of products previously exported and the importance of half-finished articles from available sources, such as England, Czecho-Slovakia, and Sweden, will prevent the Ruhr blockade from stopping industry.

In the metal industry, as in the commerce of combustibles, the outstanding effect of the blockade is increased prices. He considers that these increased prices will in some way prove less serious for German industrials than for their Swiss, Dutch, Belgian, French and English competitors. His conclusion is that until throughout the whole of Europe equilibrium between supply and demand is established, German industry will maintain a satisfactory activity; that the Rhine blockade does not promise to hit the industrials of unoccupied Germany any harder than those of any other country which depends upon its imports from the Ruhr; that German industry will eventually suffer from the inevitable stabilization of the mark but that the resulting expenditure upon unemployment subsidies will be more than compensated by the increased gold value of tax returns and exports.

D. Occupied Territory.

Industry here is adapting itself to the occupation consequences less rapidly than in unoccupied territory. The latter regions are unable to absorb the capacity of Ruhr production. M. Frere prophesizes considerable unemployment soon which will necessitate government aid. He compares the situation of Rhineland industrials today to those in Belgium under the German occupation, and points out that the latter had the advantage of having her credits furnished from outside sources while those of the Rhineland are drawn from the balance of Germany herself.

In conclusion, M. Frere points out that the personal damage to Rhineland industrials is undeniable but the resistance to the occupation is due to the moral attitude of the population, strengthened by government support,

and these factors render vain an attempt to estimate the duration of this resistance which does not depend upon economic factors.

PUBLIC ECONOMY

A. The Economic Situation.

The preliminary consequence of the blockade was a diminution of the country's production, felt especially in occupied territory. This aggravated an unfavorable trade balance since the occupied territory was obliged to continue importing foodstuffs without ability to effect counteracting exports, while the unoccupied territory must now export from abroad instead of the Ruhr. The resulting increased deficit can be met only in one of two ways: by direct or indirect foreign credits, or the sacrificing of a part of the country's wealth. The latter method was adopted when the mark was stabilized by the intervention of the Reichsbank. The duration of the present stabilization he considers impossible to foretell and it depends, in his opinion, upon the deficits in the trade balance over the next few months and the possibility of the German Government acquiring the foreign currency reserves held abroad by German nationals. He repeats the common fact that the day that stabilization becomes impossible "the flight of capital" will begin anew, and its effects will be added to the existing need of foreign currency to meet the trade balance deficit.

M. Frere, however, is not certain that a new depreciation would break the German resistance. He cites the successive years of depreciation which German economy has withstood and the fact, which must not be overlooked, that the depreciation assures to industry at least the appearance of prosperity. Moreover, it would be satisfying to certain categories of citizens who today are very powerful.

There is no doubt as to the harm done to German economy by the reduction of production due to the blockade. It dissipates her administrative funds and an increasing quota of the real wealth of the country, and the longer the present situation endures the more difficult will be the restoration of Germany's credit and the establishing of a regular and favorable trade balance.

B. Financial Situation.

A financial statement showing clearly the assets and liabilities of the Reich is not possible. It is known that the Government instituted a series of measures for increasing receipts of the Reich and for enabling her to meet her difficult financial situation but what the cost to German finances of meeting her deficit is, is not known.

The liability of the Reich results directly from two factors: the diminution of receipts and the increase of expenditure. M. Frere estimates the former at about 20 to 25 million gold marks per month, or slightly less than 1/4 of the total monthly revenue of the German state in 1922. He accounts for this conclusion by deficits in the returns from taxes in general, customs duties and the coal tax in occupied territory. The exact amount of these deficits is difficult to calculate. He considers that in addition to the deficit in the ex-

port tax returns in occupied territory, a further decrease of income from that source is to be anticipated with the increase of prices as the tendency of the German market is to approach world market figures strengthens. Interested German nationals are bitterly hostile to export taxes and it will not be surprising to see them diminished and eventually abolished.

The increase of expenses is due to the maintenance of ordinary expenses which have ceased to be productive and to new expenses arising from the Ruhr occupation and the resistance of the Reich. The Government, for instance, continues to pay railway functionaries and employees in occupied territory after the operation of the lines has ceased. A very rough estimate under this heading is 17,700,000 gold marks. Amongst new expenses are items representing specific allocations to certain functionaries, unemployment doles, subsidies to small "rentiers", indemnities for damage resulting from the occupation (requisitions, expulsions, etc.). Others are advances to industrialists in the form of provisional credits eventually to be reimbursed to the Reichsbank which seems to be charged with these operations. These advances are for financing industrialists in manufacturing, for stock and for enabling them to continue production for which there is no present sale.

The Reich solemnly pledged itself to pay in full the salaries of all workmen in occupied territories and guaranteed that there would be no unemployment in the Ruhr, and that Ruhr employers would neither have the right to discharge help nor lower salaries. The State assumed the paying of the difference between full time salaries and the amounts actually due for effective work.

According to M. Frere, French estimates establish the decrease of labor in the Ruhr at 30%, representing in the four main Ruhr industries State unemployment doles of 135 milliards paper marks per month and approximately 70 milliard paper marks per month for unemployment subsidies to their industries. The total amount of unemployment doles M. Frere estimates at approximately 40,000,000 gold marks per month. To these amounts and under the heading of unemployment must be added the cost of 600 truck loads of foodstuffs paid for by the Reich and which daily enter the Ruhr. The credits advanced to industrialists, as mentioned above, are unknown in amount; however, M. Frere cites statistics tending to show that the credits necessary to provide for the stocks envisaged by the Reich would be a figure something in excess of a trillion a year.

While a part of the expenses just mentioned is in principle reimbursable, its reimbursement seems extremely problematical, to be effected after the lifting of the blockade and at a time when the dumping on the international market of these accumulated stocks would provoke a decrease of prices and consequent loss.

C. Assets.

Momentary diminution of reparation charges.

The Reich paid during the first quarter of 1922, 427,924,266 gold marks. She has paid during the first quarter of 1923, including all amounts entered to her credit to that period, 176,122,688 gold marks in cash and kind, in-

cluding reparation recovery act receipts, paper marks requisitioned and reimbursement of H.C.I.T.R. expenses. This economy, which M. Frere prefers to call "a failure to expend", amounts to 259,801,538 gold marks, or 83,933,846 gold marks a month.

Increase of Resources.

The Reich has realized that while the policy of inflation might offer advantages to certain speculators, it was disastrous for the general population and financial measures designed to increase receipts were decided upon, consisting of two phases: checking the depreciation of the mark, and the creation of new sources of income to permit budget equilibrium without inflation.

M. Frere then outlines the mechanism employed for stabilizing the mark, viz: the limiting by the Reich and other important institutions of mark advances against foreign currencies, thus obliging holders to unload. During the appreciation of the mark following the appearance upon the German market of quantities of foreign currencies, the Reich made extensive purchases. Although limiting the appreciation of the mark to a degree by her own purchases, she nevertheless built up a reserve of foreign currencies for future use on the money market. In his opinion, the stabilization operation can for the moment at least be considered a success.

Index figures show a steady decrease of wholesale prices since the beginning of the stabilization policy, and while retail prices are still rising, there is promise of a favorable turn in the near future. The important result of this decrease of wholesale prices is the limitation of the increase of the cost of the Reich's resistance to the occupation (salaries, food grants, subsidies, etc.).

The recent internal gold loan floated by the German Government seems to have produced about \$25,000,000 or 100,000,000 gold marks. These receipts, added to the one milliard gold marks (metal reserve of the Reich) constitute a relatively important fund for supporting the mark. Gold deposits held by Germany abroad, which since May, 1922, have amounted to 50,052,000 gold marks in the Bank of England, were increased March 7, 1923, by 14,900,000 gold marks. The last statement of the Reich, April 7, 1923, shows amounts held under this heading at 164,952,000 gold marks, while being increased by a deposit of 100,000,000 gold marks in Switzerland.

Creation of new sources of Income.

He estimates the expenses of the Reich during February, 1923, as approximately 2,250,000,000,000 paper marks which, at 5,000 P.M. for 1 G.M. gives an approximate figure of 500,000,000 gold marks. His figures show a marked increase in March. For one month he estimates the total expenses at 900,000,000 gold marks; and on the basis of February and March, he estimates the total annual expenses of the Reich at 10 milliards of gold marks, of which, under prevailing conditions, only 17% would be covered by taxes and receipts from public utilities.

With the adaptation of taxation schedules to mark depreciation and the increase of return resulting from mark stabilization, this figure of 17% would be increased. Nevertheless, an enormous effort would be necessary to balance Germany's budget by taxation. The law of March 20, 1923, adapting direct taxation tariffs to currency depreciation will have a favorable effect. This law, furthermore, provides for the total collection of direct taxes for 1922, of which only 10% have been received. The estimate of return from these amounts due is 500 milliards of paper marks, and it is no exaggeration to estimate the receipts from direct taxation alone, for the month of April at approximately 700 milliards paper marks. But, admitting such a return and adding 400 milliards paper marks from public utilities - giving a total receipt of 1,100,000,000,000 paper marks, the total receipts of the Reich during the month would be less than 1/3 of the sum needed by the increase of the floating debt. The question arises as to whether, until a definite amelioration has taken place, the Reichsbank can continue to maintain the mark at its present quotation.

The mark stabilization over the last two months enabled the Government to procure foreign currencies by inflation without provoking a new depreciation.

The mark was stabilized about the middle of February at a rate such that the gold value of the money in circulation was largely inferior to the needs of the country, and the German Government profiting by momentary restoration of internal credit, was able to increase its issue without influencing the mark quotation. Thus, in two months, the gold value of the currency circulation of the country increased from 579,000,000 gold marks to 1,110,000,000 gold marks without the paper mark having increased in value, signifying internal loans in the form of bank notes to the amount of 500,000,000 gold marks. This operation was similar to that effected by the Austrian Government immediately following the stabilization of the crown. The stabilization of the mark has also permitted the Government to renew the placing of short term treasury bonds to the public. While on February 15, treasury bonds issued amounted to 2,135,962,000,000 marks, they represented on April 7 a sum of 6,999,115,000,000 marks, or an increase of 4,363,000,000,000 marks, while the increase of treasury bonds held by the Reichsbank was only 2,873,000,000,000, showing an absorption by the public of 1,489,000,000,000 marks worth of bonds.

In conclusion M. Frere states that in spite of many evident symptoms of financial amelioration the situation of the country remains extremely critical and from his point of view the future is dependent upon the length of time during which the Government will be able, in spite of the economic deficit, to maintain stabilization; to what extent the foreign currencies which German nationals will be obliged to seel in order to live, will compensate for the German economic deficit; and further, for how long the Reichsbank, without injuring the mark, can continue to issue banknotes.

In reality, all these possibilities depend in great measure upon psychological factors. They depend upon the confidence which German and foreign capitalists will have in the result of Germany's resistance, and in the conclusion of a definite reparation arrangement which will permit the rehabilitation of Germany. If an arrangement were possible today, the reform measures on the

point of being fulfilled would constitute a first step in the recuperation of the country. Through resumed production in occupied territory and through the freeing of the Government from enormous unproductive expenses, German economy would ameliorate rapidly. The financial policy, begun for purposes of resistance, could as well serve as a starting point for a reparation policy. If, on the contrary, the resistance is prolonged, the present effort for reform can with great difficulty succeed and a new depreciation of the mark will sooner or later occur. It should, nevertheless, be noted that, if the present policy of stabilization should have to be abandoned, it must not necessarily be deduced that Germany's capacity for resistance is exhausted.

If one considers that German economy has today adapted itself to a great extent to the depreciation of the mark and that the inconveniences to German nationals resulting from depreciation are diminishing, one must not exclude the possibility of the German state resuming the policy of inflation when it sees fit. This policy holds the advantage for Germany that it permits her to procure without any difficulty financial resources which she needs for supporting the enterprise of the Ruhr, and the debt she is obliged to contract for this operation automatically amortises itself. It is possible that Germany may consider that the advantages to be derived from such a policy are superior to the disadvantages. At any rate, the relinquishing of the present stabilization effort would make any new effort of this nature much more troublesome because of the increased difficulty in establishing confidence in it.

Germany's restoration will perhaps not be realizable except by means of foreign credits, as is the case with Austria - credits which will necessarily have to enjoy priority over reparations.

The foregoing completes the brief of M. Frere's statement.

Faithfully yours,

Jan A. L. Jr.

JAL/AJG

The Honorable Benjamin Strong,
Governor, Federal Reserve Bank of New York,
New York City.

2797

September 19, 1923.

Dear Sirs:

In Mr. Strong's absence, I have for acknowledgment the English translation of the Reply of the French Government to the Note of the British Government of August 11, 1923 Relating to Reparations, for which please accept thanks.

We are desirous of obtaining the English translation of Documents Relatives Aux Notes Allemandes Des 2 Mai et 5 Juin Sur Les Reparations, and if you have a spare copy we should greatly appreciate receiving it.

Yours very truly,

Secretary to
Mr. Benj. Strong.

French Bureau of Information,
598 Madison Ave.,
New York, N. Y.

0797

OFFICE CORRESPONDENCE

DATE Sept. 19, 1923 192 TO Governor Strong

SUBJECT: _____

FROM Mr. Beyer

Loose in file

I am not certain whether you have received copy of the Diplomatic Correspondence - Reply of the French Government to the Note of the British Government of August 11, 1923 Relating to Reparations, although I recall sending you a document which might have a bearing on the German notes of May 2 and June 5 regarding reparations. As two copies of the enclosed document have been received from the French Bureau of Information, I am retaining one for the Reparations file, and I am asking that they send us another copy of the Documents relating to the German notes of May 2 and June 5.

FRENCH BUREAU OF INFORMATION
BUREAU FRANÇAIS DE RENSEIGNEMENTS

598 MADISON AVENUE
NEW YORK

C797

September 20th 1923

My dear Sir:

In reply to your letter of recent date
I greatly regret to inform you that I have not on
hand the English translation of the documents relative
to the "Notes Allemandes des 2 Mai et 5 Juin Sur les
Reparations", which you are desirous of obtaining.

Regretting that I cannot be of use to you
in the present matter, I remain,

Very truly yours,

R. Drouin
R. DROUIN
ASSISTANT DIRECTOR

George Beyer, Esq., Secretary to Mr. B. Strong,
Federal Reserve Bank of New York, New York City.

JAMES A. LOGAN JR.

Paris, 28 September 1923.
18 rue de Tilsitt.

Personal & Confidential.

My dear Ben:-

As reported in our preceding letter of September 14, the maintenance of passive resistance on the part of the Reich was rapidly becoming impossible, and Herr Stresemann was endeavoring to find some bridge by which he could meet the French demand while at the same time preserving his internal position. Herr Stresemann's internal position was, and is, difficult. The Communistic elements in Germany, particularly in Prussia, have gained greatly in strength, with the result that the Nationalistic elements, in an endeavor to hold the Communist in check, have marshalled their forces and thus a situation of extreme political tenseness has been created in Germany. The Communist elements have a club in the shape of what they claim was the futile waste on the part of the Cune Government of hundreds of millions of dollars for passive resistance.

The difficulties of the Stresemann Government were particularly emphasized by the attitude of both the Communist and Nationalist Parties during this tense period in Germany's internal affairs. On September 21, the Executive Committee of the Communist Party proclaimed war against the Stresemann Government in large type on the front page of the "Rote Fahne": the Communists declared that the Government was surrendering unconditionally to French militarism and capitalism, and "that an agreement which obviously would soon be arrived at between the German and French bourgeoisie would mean ruin to German workers". The Communists "therefore called on workers, employees, officials, peasants, and the middle class, to collaborate in a grand effort, the aim of which was the removal of the Stresemann-Hilferding Government, the establishment of a workers' and peasants' Government, control of production, the closest association with Soviet Russia, and the ending of the Ruhr conflict at the expense of the bourgeoisie". On the other hand, the Nationalists claimed to be "highly indignant at the idea that Germany should submit to France, and insisted that Germany should fight to regain independence"; they "also prophesied famine in Germany during the coming winter, and asserted that the country was already engaged in civil war, though at present only skirmishing is taking place". Speaking at a Nationalist Reunion at Mecklenburg-Shwerine, Herr Hergt, the Chief of the Nationalist Party, declared that he felt that the France-German conflict should be solved on purely political lines: he stated, "It is not that we desire war with France, but France is running a formidable risk in endeavoring to penetrate further into Germany. If France holds

"to this policy the day will come when one will appreciate the effects of the risk she is taking. We Nationalists, and this I declare solemnly and officially, will not be parties to any capitulation". In addition, Herr Stresemann's Government was faced with the problem of the occupied area, the possible Separatist movement there, the condition of those expelled from this territory by the French, as well as those condemned by French Military Tribunals. The foregoing, in brief, presents the problems directly facing Herr Stresemann in his endeavor to reach some agreement with the French which, while submitting to the French on the question of "passive resistance", would nevertheless leave him something to pacify and thus maintain his own position with German public opinion.

In our letter of September 14 we reported the first overture Herr Stresemann made to reach a settlement through his conferences in Berlin with the French and Belgian Ambassadors. This proposal was, in brief, that his Government was prepared to formally give up the policy of passive resistance, but with the condition tied to it that the France-Belgians would simultaneously and ostensibly force his acceptance of a plan not infringing the territorial integrity of Germany, and affording some guarantees for those expelled and condemned in the Ruhr. Herr Stresemann explained at the time that he could only preserve his internal position by stopping passive resistance coincident with the acceptance of the proposed forced France-Belgian plan. This Stresemann overture was accepted by M. Peincare as evidence of a desire on the part of Herr Stresemann to come to terms, but any German conditions were unacceptable to M. Peincare and, according to our information, the two Ambassadors were instructed to inform Herr Stresemann accordingly.

On September 16, M. Peincare made the following speech at Dun sur Meuse:

"M. Peincare outlined the period of fighting at Dun sur Meuse in August, 1914, the German occupation, the fighting before Verdun, and then the offensive of the liberation. He concluded:

"When Peace was signed the Allies mutually promised, and defeated Germany herself swore, that such crimes should not rest unpunished and that all the damages caused by the invasion, whether to persons or to property, would be repaired. These damages were carefully enumerated, and there were included in the list not only pensions to combatants and their families, but also payment for forced labor imposed on you during the occupation. To some people, nevertheless, all these prescriptions are today a dead letter. Because the Germans have repudiated their engagements and because we have thought to remind them of their engagements, certain people lead us with criticism and malediction. Why not abandon these out of date claims? Why are we so attached to the treaties? Why not consent to have our credits revised by nations who stayed out of the war or by financiers in a hurry to resume their lucrative operations? If we do not accept some combination to relieve Germany from the necessity to

"pay her debts we are considered as disturbers, we are blamed for our exigences, we are reproached for our impertunities. All that Germany did to ruin France is forgotten: it is the past, and in the giddy course of things the past no longer counts. All that Germany has done to dodge her obligations is likewise forgotten; it is the past also. And the past of yesterday is itself already far away.

"It is not to neutral commissions, nor to international experts, nor to an international fideicommissary association, nor to the League of Nations itself (whose role is great but not in this case), that the Treaty of Versailles has confided the duty of fixing the German debt and of drawing up the conditions under which it shall be paid. It is to a special commission, called the Reparation Commission, of which Germany has expressly recognized the powers. If it is thought to relieve this Commission, it is without doubt because the Commission is believed to little favor new concessions. But new concessions would be contrary to engagements entered into with us, and it is sufficient that we do not lend ourselves to them. We hold gages; we will keep them until we shall have received satisfaction."

On the same day as the preceding speech he made the following speech at Brieuilles sur Meuse:

"We must insist on the amount of our reparations, and we must also watch over the maintenance of our security. But neither in the one nor the other of these two orders of ideas must we let go of the substance to grasp at the shadow.

"Germany beguiles us today with words which she believes to be tempting, and with promises from which she expects marvels. Certain of her publicists and of her politicians have taken up an idea of which we are aware, with the hope of seeing us adopt it. Why, say they, do not the reparian States of the Rhine associate themselves together to guarantee between them for a determined period, the status quo in this region? Would not such an accord permit the world to breathe during a certain time? The promoters of this ingenious combination take care to add that there are among our Allies many sensible people who find it perfect, and who are prepared to recommend it to us.

"Let us thank them quickly and in advance, but let us not permit the friends of France to go astray along perilous roads. In creating the League of Nations, the Treaty of Versailles has provided, in principle, that all Nations forming part thereof covenant mutually to respect each other's territory. The day that Germany shall have at last fulfilled the obligations which she has undertaken, she will be free to request admission to

"the League, and when she shall become a member, France and she will reciprocally guarantee, by that fact itself, each other against any aggression. A special pact applying to the frontiers on the Rhine would add nothing to the text of the Treaty. It would even have the grave inconvenience of weakening the general pact, because applying neither to the frontiers of Czecho-Slovakia nor to those of Poland, it would seem to leave to Germany more liberty to the east or to the south than to the west. And it goes without saying that the day when the Reich would have re-developed a militarist appetite it would commence to direct its attacks far from the Rhine, except to return to us if we would go to the aid of our Allies. This is the observation that I made last year to Mr. Lloyd George when we spoke of a pact of guaranty which would not apply except to the Rhine, and for a few years only, and which in addition was not accompanied by any military security. With how much more reason must we make the same reply to the Germans who would to-day offer us this same camouflaged canvas.

"A pact of guaranty, whoever may be the signatories, would have for us no practical value if it did not assure us in case of attack rapid and efficient military aid. Before the War Great Britain had not promised us any military cooperation; she was free not to intervene even if France was the object of an unprovoked aggression, and nevertheless her military and naval general staffs had established general accords with ours which would permit them in case of British intervention to coordinate their efforts. The day that Great Britain took the side of Belgium and of France we knew by these conventions where and in what measure she was going to act immediately. We were not the less forced to support during long months with French troops and on French soil the heaviest burden of the war. Pacts of guarantee which do not even represent technical understandings similar to these, risk us to be left alone or almost in face of an invasion. And as soon as signed they would be represented everywhere as symbols of peace, and we would be repeatedly told that having nothing to fear we must hasten to disarm, and we would be exposed at the opportune time to being assailed by an enemy more numerous, better prepared and better equipped than we. No, thanks. If we are offered for our security nothing but pacts of this kind, the flour covering the stone in place of bread, they are of no value to us.

"In addition to this offer is made us in general with the addition in a discrete tone: 'When you shall be protected by a bouquet of signatures you will consent, will you not, to evacuate the left bank of the Rhine before the expiration of the delay fixed by the Treaty?' Thus, for the mirage of an illusory guaranty, they count on our giving up a positive guaranty. It is well known that Germany not having executed any of the

"clauses of the Treaty, the successive Governments in France since 1919 have all declared that the delays of the occupation of the left bank of the Rhine have not yet commenced. It is attempted nevertheless to shorten them. If they succeed in this we will be obliged before the contractual dates to retire our soldiers from the slopes where they mount guard to defend the peace of the world; and German militarism will be able to prepare at ease new wars of magnificence and of conquest.

"It is a game to which we will not lend ourselves. We are keeping the sureties which the Treaty has given us. Without doubt, as they are not eternal, and as those promised us in 1919 have not been given us, we will look voluntarily, with our Allies at the proper time, for others for the future; but no more in this question than in that of reparations will we be content with vain appearances. We have been taught in the apprenticeship of pain. It has given us an education which we will no more abandon. We have suffered too much not to be in the future attentive and circumspect. We will not let ourselves be deceived by a bird-call. A people warned is equal to two".

On or about September 19, Herr Stresemann sent for the Belgian Ambassador in Berlin, repeated his previous declaration that the financial and economic position of Germany was intolerable, and proposed the formal relinquishment of "passive resistance" conditioned only on a most general France-Belgian assurance of a "serious investigation and consideration of the position of these German nationals of the occupied area who had been expelled or condemned by the French Military Authorities." It is understood that the Belgians were willing to give favorable consideration to this German offer. However, M. Poincare declined to accept any conditions.

On Sunday, September 23, M. Poincare delivered three addresses: the first at Champenoux, the second at Toul, and the third at Bois Lepretre. During the course of these speeches he made the definite statement that Germany would have to give up the policy of passive resistance without any conditions whatsoever. In the course of these speeches he referred, first, to the military operations of the war in the immediate vicinity of the places where he spoke; then referred to the history of the war leading up to the time of the Armistice. He then referred to the Armistice as the act which has saved Germany from destruction. On this point he added:

"Whether the Allied Governments were wrong or right in stepping at this decisive moment the elan of the victorious armies, is a question that I do not wish to discuss. But whatever opinion one might have in this connection, it is certain that by continuing the hostilities for several days the Allies were certain of crushing the last German divisions.....

"The German Nationalists feign however to be troubled with loss of memory, and they tell us without smiling that their country was not vanquished by the Allied troops, but paralyzed by the revolution. As if the mutinies and the troubles were not at that time the consequence of defeat! As if the convulsions in which Germany was struggling were not the evident sign of her military agony! But there are still on the other side of the Rhine people who have eyes so as not to see and ears so as not to hear. In their obstinacy not to take account of realities they are leading their country to new catastrophes; in fighting the Treaty that Germany signed, they are wasting madly resources which they could have employed in executing it; they resemble unhappy people afflicted with the malady of suicide. What can be done to prevent them from making a chasm under their feet? When one reasons with them, when one reminds them without bitterness that it is necessary that they respect their engagements, they are astonished; they complain and they become irritable. Let them talk, and let us wait until they realize the truth. When they have reached the very edge of the precipice they will still have sufficient control of themselves, thank God, not to fall over it. They will only have to recognize the vanity of their resistance and at length to show us that they have the sincere will to hold to their promises. But let them take care! The slope is steep, and it is not we who are likely to slip."

Towards the end of his speech at Toul, M. Poincare argued that history offered few examples of the moderation with which Germany had been treated after the war, but said M. Poincare:

"so that the peace of tomorrow may be better and surer than that of yesterday, it is necessary that the Germany of tomorrow shall not be the Germany of yesterday; she must get rid of her old Imperialist habits; she must have the clear comprehension of the harm she has done, and a sincere resolve to repair it. I very much fear that her eyes are not yet entirely open to the truth. She bargains, she equivocates, and in the execution of her engagements she shows no good will. By her geographical situation, the fertility of her soil, the abundance of her waterways, the importance and quality of her coalfields, her resources in lignite and potash, and by the wealth of her metallurgy, Germany is one of the richest nations in the world. On the eve of the war she was far ahead of France, not only in her industrial, commercial, and mining resources, but also in her agricultural wealth. The war has not seriously encroached upon this astonishing prosperity. The crisis through which the Reich is passing suspends its capacity of payment without diminishing it for the future. Germany keeps her admirable plains, her coalfields, and her potash deposits, her

"electrical energy, her factories, and her power of labor. The only thing she lacks is the desire to discharge her obligations."

As showing his determination that France would remain in the Ruhr until Germany fulfills her obligations, M. Poincare continued by stating:

"It is not from gaiety of heart that we went into the Ruhr or that we have given to the seizure of pledges the character of a military occupation. If we had had to deal with a loyal and well-disposed debtor we should not have dreamed of sending the bailiff to him. It is he who has worn out our patience and who has demonstrated to us the necessity of measures of constraint. Therefore let the talk cease of a militarist France who is pleased to set out on expeditions at the sound of the bugle. Whatever she may do or wish, France, who is spending every day millions for the account of Germany, cannot continue to make these advances, which are ruining her; she can not interrupt any more the work of reconstruction in her devastated communes and leave the cruelly tried populations without shelter. She has already paid more than one hundred milliard francs in the place of Germany, and Germany would indefinitely accustom herself to this unjust and paradoxical regime if we had not awakened in her the sentiment of her defeat. She embarked on the war without in any way being provoked; she lost it, and she has only now to carry out her engagements. As long as she delays we shall remain where we are. There is not a pacific people, there is not a man of good faith, who can say that we are wrong."

During his speech at Bois Lepretre, he returned again to the subject of the occupation of the Ruhr:

"He drew a picture of German resistance, outrages, and acts of sabotage which, he declared, Germany hoped would have ended in conflicts for which France would be held responsible. When the Reich was deceived it depreciated its mark more and more, and when the Ruhr population began to show signs of tiring of a powerless resistance it intrigued near Allies of France in the hope of obtaining concessions. But, emphasized M. Poincare, the diplomatic documents exchanged with "our English friends" showed Germany that France did not intend to flinch. Even if resistance was financed some time longer the Premier was certain that it would fall of itself. Germany had only one reasonable course to take, and that was to withdraw the decrees ordering passive resistance, but instead of doing this she wanted advantages which would be equivalent to a disavowal of French policy. The Reich held out the fear that unless these advantages were obtained a catastrophe would follow,

"since the country would become a prey to nationalism or to a Bolshevik revolution the effect of which would be felt on its neighbors. M. Poincare made it clear that France would not allow herself to be terrorised by prophecies of this sort, and that there must be a surrender of the policy of passive resistance without any conditions. The passage on this point of his speech is sufficiently emphatic:

"Even supposing that Germany were menaced with such a cataclysm we should have nothing to fear from the repercussion. Our country is happily safe from any attempts of military or Communist dictatorship. It is, on a disturbed Continent, the model of a peaceable and well-ordered democracy; it is firmly attached to Republican institutions and Parliamentary liberties. Peasants imbued with a passion for work and love of their soil; workmen, however justly attached to social progress, who have the sharp sense of realities; a bourgeoisie which has its roots in the people and draws its vital force therefrom; a national unity consecrated by centuries--there are decisive guarantees of good sense and reason. We are immune from contagion. However, we do not desire the death of any sinner, and no matter what bad faith Germany may have shown, we sincerely hope that she may be able to falsify the lugubrious prognostications with which it is sought to disturb us....None more than France desires a settlement of the reparation problem....We are more interested than anyone in this settlement, but it is not for us to bear the cost....Yes, indeed, we are eager to settle, as eager as the Germans, as eager as our Allies. But first of all let an end be put to subterfuges, to the last spasms of passive resistance, and to the vain attempts to obtain conditions. We will not accept any conditions. We shall hold to the protocols of Brussels, to our Yellow Book and our public declarations. We have nothing to add to them, and nothing to withdraw."

After the foregoing speeches, which constituted M. Poincare's public reply to Herr Stresemann's overture through the Belgian Ambassador, Herr Stresemann called a meeting of the leaders of the various German Parties and German representatives from the occupied areas, with the result that on Wednesday, September 26, President Ebert of Germany issued the following proclamation.

"On January 11, French and Belgian troops occupied the German Ruhr territory against right and treaties. Since that period the Ruhr district and the Rhineland have had to endure the most grievous oppression. More than 180,000 Germans--men and women, old men and children--have been driven from their homes. For millions of Germans the idea of individual liberty no longer exists.

"The occupation was accompanied by numerous acts of violence. More than 100 of our countrymen have lost their lives. Hundreds of others are still languishing in prison.

"The sentiment of justice and patriotism was stirred by the illegality of the invasion. The population refused to work under foreign bayonets. The whole German people is grateful for the fidelity to the German Reich and the steadfastness that stood the test of the hardest times.

"The Government of the Reich undertook to watch over its distressed compatriots so far as it was able. There was thus an ever-increasing drain upon the resources of the Reich. The funds in aid of the Ruhr and the Rhineland last week reached a sum of 3,500 trillions of marks.

"An expenditure of at least double that sum is to be foreseen for the present week.

"The former production of the Rhineland and the Ruhr has ceased. Economic life in occupied and non-occupied Germany is disorganized. It is most seriously to be feared that, should the same line of action as hitherto be proceeded with, the creation of a regular currency, the maintenance of economic life, and existence itself are becoming impossible for our people.

"In the interest of Germany's future as in that of the Rhine and the Ruhr this danger must be removed. In order to preserve the life of the people and of the State, we are today faced by the dire necessity of relinquishing the struggle.

"We know that in doing so we are calling upon the inhabitants of the occupied territories to make sacrifices of a moral character still greater than those they have acquiesced in up to now. Their struggle has been heroic and their self-control incomparable. We shall never forget what the occupied territory has achieved, and what has been given up by those who preferred to leave their native country rather than be disloyal to the Fatherland.

"The first duty of the Government is to see that prisoners are released and that the expelled persons may return. The fight for the elementary rights of humanity comes before all economic and material concerns. Germany has declared her readiness to assume the most severe material sacrifices for the liberty of German subjects and German soil, but that liberty is for us not an object of negotiation or barter.

"The President of the Reich and the Government solemnly proclaim before the German people and the world that they will lend

"themselves to no arrangement that deprives us of the smallest piece of German soil.

"It depends on the Powers which have invaded our territory and on their allies, by adhering to this idea, to give peace to Germany, or to bring about by the rejection of this peace all the consequences which would ensue for the relations between peoples.

"We invite the German people to stand closely together in the days of dire moral and moral strife which are to come. Only thus shall we frustrate all projects for the dismemberment of the Reich, preserve the nation's honor and life and recover the liberty which is our imprescriptible right."

At this writing the attitude of the French and Belgian Governments with regard to the Ebert proclamation is not clear. While the proclamation constitutes an unconditional surrender of passive resistance, the tone of the proclamation is far from satisfactory to French public opinion. This latter public opinion asks the question:

"Now that we have gained The Victory what have we got?"

The natural reaction from this question leads to expressions of bitterness with the terms of the Ebert proclamation. Obviously inspired emanations from the Quai d'Orsay appearing in the French Press last night and today point to the fact that the proclamation in itself constitutes only a notification of the cessation of passive resistance to the German public, drafted in terms designed to mollify such opinion, and that French public opinion must await the terms of the formal notification by the German Government to the French and Belgian Governments. These same emanations indicate that when this formal notification comes, and if it be in proper terms, the question of the future course of Reparations will automatically come before the Reparation Commission, "the organization constituted for such purpose by the Treaty of Versailles". In addition, the Quai d'Orsay emanations intimate that the French and Belgians "will continue holding such securities", and "will enforce other conditions as sanctions which are outside the province of the Reparation Commission", adding in general terms that such securities and sanctions will follow the lines of those laid down in the French Note of January 25, 1923.

As showing some basis for the French fear, the following article which appeared on September 27 in the Berlin "Zeit", which is popularly supposed to be the mouthpiece of Herr Stresemann:

"If M. Poincare imagines that the end of passive resistance throws open the path to the realization of his program, he is greatly mistaken. Just so long as those who have com-

"mitted no other crime than to respect the ordinances and laws of their own country remain in prison or expelled from their homes na German Government can work with the French, nor sign any agreement. A Government which abandons the victims of arbitrary acts would lose its prestige, and even its existence. The Stresemann Cabinet has taken the action it has so as to liberate the Ruhr and the Rhineland without any illusions as to the difficulties. In absolute conformity with its past attitude, it will demand certain conditions from the French before entering into negotiations with them. It is ridiculous to pretend, as M. Poincare has tried to make it appear, that we will capitulate without conditions. It is also ridiculous to suppose, as certain German papers have tried to do, that the German Government is ready to cede everything without conditions. The Stresemann Cabinet will not capitulate, even now when force of circumstances has made it necessary to give up passive resistance."

At no time in our experience has the German situation been so nebulous as it is today, and we would not care to venture any forecast as to future developments. There is quite a group of European opinion outside of France that feel that the Security rather than the Reparation phase is now the dominating influence in M. Poincare's mind, and that the latter has no great desire for an early settlement of the Reparation question, wishing to procrastinate in the hope that in the meantime Germany will become so weak, or perhaps so broken up, as to be of negligible importance from the Security angle. However, against this thesis is the undoubted France-Belgian fear of radicalism and disorder in Germany resulting from the policy of procrastination, and its possible ultimate effects on the France-Belgian social and economic situation. With this latter phase the more conservative French opinion is deeply concerned.

One somewhat reassuring indication has just appeared: we are informed today by the Belgians that both the British and Italian Governments have formally agreed with the Belgian Government to instruct their representatives on the Reparation Commission to push within the Commission in the next fortnight for the consideration of a reparation settlement plan on the basis of the Belgian proposal of last June (see our letter of June 15, 1923). We are not informed what the attitude of the French Government is on this question. In view of past experiences with the Belgians we remain somewhat dubious as to whether M. Theunis will remain in line on this scheme provided it be seriously opposed by M. Poincare. While the Belgian plan is, in our judgment, unsound in many of its phases, nevertheless a progressive step will be made by a British-Belgian-Italian line-up forcing its consideration. The Belgian proposal has the merit of being so elastic that there is a strong possibility of some constructive plan developing from its consideration and this particularly in the event of it being possible to maintain a British, Belgian and Italian line-up against M. Poincare.

A meeting was finally arranged between Mr. Baldwin and M. Poincare and they had a conversation together at the British Embassy in Paris the evening of September 19. At the close of the meeting the following communique was issued:

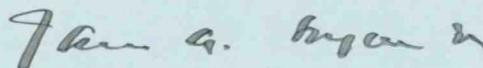
"A meeting of the Prime Ministers of France and Great Britain took place this afternoon, of which they took advantage to proceed to an exchange of views on the general political situation.

"It is not to be expected that in the course of one meeting M. Poincare and Mr. Baldwin would be able to settle upon any definite solution, but they were happy to establish a common agreement of views, and to discover that on no question is there any difference of purpose or divergence of principle which could impair the cooperation of the two countries, upon which depends so much the settlement and the peace of the world."

The statement in the foregoing communique to the effect that the two statesmen "are happy to establish a common agreement of views and to discover that on no question is there any difference of purpose or divergence of principle which would impair the cooperation of the two countries" was widely heralded in the French Press. The impression was given that Mr. Baldwin had receded from his past position and prepared to orient British policy on lines approaching the Poincare thesis. Sir John Bradbury informed us confidentially that the British Government was embarrassed by the popular impression, particularly given out through the French Press, that any change in orientation of British policy had resulted from the meeting. According to Sir John Bradbury, the Baldwin-Poincare conversation was confined to a most general and entirely amicable presentation of their past divergent positions on the German question and without any commitments or even expressions of hope of any change in past orientation of policy on either side. He said that one of Mr. Baldwin's secretaries was responsible for the blunder in approving the text of a communique proposed by the French which was subsequently published and which, according to Sir John Bradbury, was entirely misconstrued by the public. The first result of the impression given out by the French Press was a marked strengthening of the French franc. However, French enthusiasm was somewhat dampened by reading quotations from the British Press obviously inspired by Downing Street and today the franc is again slipping.

Faithfully yours,

JAL/AJG



The Honorable Benjamin Strong,
Governor, Federal Reserve Bank of New York,
New York City.