

THORPE LODGE,
CAMPDEN HILL. W. 8.

Friday, Apr. 14th 1921.

Dear P. J.

My trip over was quiet, uneventful and much of it spent in my bunk resting. I did manage before leaving to pick up a slight sore throat and as the weather here has been unusually raw with a cold East wind, I have been Conservative, stayed in the house and most of the time in bed until time to dress for dinner. I shall probably not go to the house until Monday. As far as I gather the following picture from the press and from Norman.

Politics. The Labor Government was doing surprisingly well until the "housing of unemployed" question was forced and a bill proposed suspending the right of eviction and putting the loss on the landlord unless his fire happened to be as bad as the tenants. This united the Liberal and Conservative parties and would have thrown the Gov't out on a vote, had they not

allowed the bill to be "talked out" under one of their
ridiculous old parliamentary rules which both avoids
a vote and a back down. But this we all bring
laughed at, which is ominous.

Business There is undoubtedly a gradual improvement
here to see, how much, but sufficient to reduce the
registered unemployment to slightly over one million,
about two thirds of the recent high figure. But the
advent of a Labor Govt has made the unions ready,
and notwithstanding unemployment, strikes are in
prospect, or imminent in many quarters. It
will either prove most awkward for the new Govt, -
or (as most surmise) they will allow demands not
justified by conditions and cause what Chapman
fears will be a "spending inflation."

The "Commission." I am growing fearful of a report
which one or the other party cannot or will not
accept. Germany may be asked to pay more
than can be done without a renewal of all the

disorders of the past few years. They 'phoned me from Paris asking me to go over for a chin (Entrez nous) but I said "Nothing doing" - for reasons good enough!

THORPE LODGE,

CAMPDEN HILL, W.B.

Good a lesser subject. Norman agrees with me that the sources are about dried up outside new production. But the South African mines, reports from which have just appeared, show good profits last year, and some high records, with production increasing and wages all down again. The Bank has about 60 million Sterling in Escrow for the rest of the world, mostly American resources of one sort or another, which we are not likely to get. Nothing yet changes my view that outside new production, of which $\frac{2}{3}$ is free to come to us, only a small break down of British debt payments can greatly increase my estimate of say $\frac{2}{3}$ of world production. The Bank. Since my last visit to London, curious as it may be, the old Lady has been gradually forced

into an investment policy almost identical with ours. Their "dollar" is shorter, and yet surprisingly longer now, at times 30 and even 40 millions of dollars. The centralized market enables them to anticipate the Treasury turnover, while we follow it - on quarter days. I'm turning over in my mind some scheme for improving our own technique.

Ratio Norman faces the cry of the inflationist, and anti deflationist with astonishing equanimity. British Courage (would we had more) and tradition are his great assets. He now considers that an advance to 5% will be forced upon him by -

(a) The need for improving the exchange.
(b) The possible "skidding inflation" mentioned above and

(c) The excessive foreign loans now taken eagerly by the market with rates so low.

He has some fear that if we lower our rate, say to four, or will cause complaint that he is throwing our hands too generously.

THORPE LODGE,

CAMPDEN HILL. W.8.

the belief is that when unemployment gets below say
one million, he will go to 5%, but
will still be influenced by Continental
conditions following the Deoro report. It all strengthens
my feeling, however, that indications of slackening
business at home will (or may) justify our reducing
to 4%. Let us ignore politics and act upon our
convictions, but first get our investment account
up to a level where it will be effective when we
see the need for a check.

Schaech's Bank. No definite order of ten millions
or any other sum has been arranged in London.
For us to take bills as base described involves
no one considerable departure from our present
practice in that the acceptor will be neither
an American concern nor a foreign one concealed
in America. That does not disturb me greatly,
but it would be distinctly bad to have the im-

discussion yet about that or how in any way a party
to a credit transaction or has taken the first step
in getting behind any plan for currency or monetary
or credit reorganization in Germany or anywhere
else in Europe. That first step, when taken,
must follow real construction progress over here,
which is not yet in evidence with a telescope.
Some German of more ambition than honesty could
well picture an American "Eligible" bank as a
real participation in a transaction by the
F. R. System, and that should not be allowed to
happen. If you do decide to make such banks
eligible, see that it is understood that we would
not take them were our wishes to be disregarded.

The frame: My friends in Paris fear that the
sharp advance will be harmful, - so do I! In
view of the Submissor's attitude of the politician,
the experts, and make a balanced

THORPE LODGE,
CAMPDEN HILL. W. 8.

budget exceedingly diffident. My friends on the Corner
were not unaware of this possibility
as I suggested to them the need for
some control of the "dealings", after Credits were
opened, so as to avoid a policy of "Shardro
Kidenken" toward the Sherts.

This is all I shall attempt now. Harding is in
London and expected at the Bank today or tomorrow.
My own plan is to follow up a lot of matters in
which we are interested, take them over in my
Cranium, and pass them home. It is not likely
that I shall go to Paris at all, much as I should
enjoy a visit with old pals and dinners at
"Voisins". This letter must be handled with much
discretion. Edit it for Consumption with the
Elect and near Elect!

Yours, with love to all —
P.S.

(Copy)

Friday
April 15, 1924
4

Thorpe Lodge
Campden Hill, W. S.

Dear P.J.

My trip over was quiet, uneventful, and much of it was spent in my bunk resting. I did manage before leaving to pick up a slight sore throat and as the weather here has been unusually raw with a cold East wind, I have been conservative. Stopped in the house and most of the time in bed until time to dress for dinner. Shall probably not go to the bank until Monday. So far, I gather the following picture from the press and from Norman.

Politics. The Labor Government was doing surprisingly well until the "housing of unemployed" question was forced and a bill proposed suspending the right of eviction and putting the loss on the landlord unless his fire happened to be as bad as the tenant's. This united the Liberal and Conservative parties and would have turned the Government out on a vote, had they not allowed the bill to be "talked out" under one of the ridiculous old parliamentary rules which both avoids a vote and a back down. But they are all being laughed at, which is ominous.

Business. There is undoubtedly a gradual improvement. Hard to say how much, but sufficient to reduce the registered unemployment to slightly over one million, about two thirds of the recent high figure. But the advent of a Labor Government

has made the unions greedy and notwithstanding unemployment, strikes are in prospect, or imminent in many quarters. It will either prove most awkward for the new Government or (as most surmise) they will allow demands not justified by conditions and cause what Norman fears will be a "spending inflation."

The "Commission". I am growing fearful of a report which one or the other party cannot or will not accept. Germany may be asked to do more than can be done without a renewal of all the disorders of the past few years. They 'phoned me from Paris asking me to go over for a chin, but I said "nothing doing"--for reasons good enough!

Gold. A heavy subject. Norman agrees with me that the Services are about dried as outside new production. But the South African mines, reports from which have just appeared, show good profits last year, and some high records, with production increasing and wages all down again. The Bank has about 60 million sterling in escrow for the rest of the world, mostly advance reserves of one sort or another, which we are not likely to get. Nothing yet changes my view that outside new production, of which 2/3 is free to come to us, only a French breakdown or British debt payments can greatly increase my estimates of say 2/3 of world production.

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40 millions sterling, the centralized market enables them to anticipate the Treasury turnover, while we follow it--on quarter days. I'm turning over in my mind some scheme for improving our own technique.

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(a) The need for improving the exchange.

(b) The possible "spending inflation" mentioned above, and

(c) The excessive foreign loans now taken eagerly by the market with rates so low.

He has some fear that if we lower our rate, say to four, it will cause complaint that he is playing our hand too generously. My belief is that when all ^{un}employment gets below say one million, he will go to 5% but will still be influenced by continental conditions following the Dawes report. It all strengthens my feeling, however, that indications of slackening business at home will (or may) justify our reducing to 4%. Let us ignore politics and act upon our convictions, but first get our investment account up to a level where it will be effective when we see the need for a check.

Schachts bank. No definite credit of ten millions or any other sum has been arranged in London. For us to take

bills as base described involves one considerable departure from our present practice in that the acceptor will be neither all American concern nor a foreign one domiciled in America. That does not disturb me greatly, but it would be distinctly bad to have the impression get about that we were a party to a credit transaction or had taken the first step in getting behind any plan for currency or monetary or credit reorganization in Germany or anywhere else in Europe. That first step, when taken, must follow real construction progress over here, which is not yet in evidence with a telescope. Some German of more ambition than honesty could well picture an American "eligible" credit as a real participation in a transaction by the F.R. System, and that should not be allowed to happen. If you do decide to make such bills eligible, see that it is understood that we would not take them were our own wishes to be disregarded.

The franc. My friends in Paris fear that the sharp advance will be harmful--So do I! It will lessen the submissive attitude of the politician, reduce their experts, and make a balanced budget exceedingly difficult. My friends on the corner were not unaware of this possibility as I suggested to them the need for some control of the "dealing", after credits were opened, so as to avoid a policy of "*Sparks Disunion*" toward the States.

This is all I shall attempt now. Harding is in London and expected at the Bank today or tomorrow. My own plane is to

follow up a lot of matters in which we are interested, tuck them away in my cranium, and take them home. It is not likely that I shall go to Paris at all, much as I would enjoy a visit with old pals and dinner at "Voisuvis". This letter must be handled with much discretion. Edit it for consumption with the elect and near elect!

With best to all,

B.S.

C
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P
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RECEIVED

APR 19 1924

London. April 11th 1924.

P. J.

Dear P. J.

The Southampton dock and Shipyard Strike caused the Majestic and Mauritania sailings both to be changed, leaving no boat until the Franconia (19th) and Olympic (23rd) which arrives only a day apart. I'm awaiting word as to which boat Baciulus will take, and shall write you in a day or two what to expect.

Over 100000 arrivals here today, with hundreds, and we shall have an interesting talk.

I had an interesting visit ^{also} with Steiner and Hawtrey, of the Treasury. They were most complimentary regarding the F. R. Board annual report as were Kiddle of the "Morning Post" and Allen of the "Times". They seem to think that it finally tells them something.

As to monetary matters, one finds at the extreme "left", Keynes, Adams et al, in the middle Hawtrey, Bannan & others of rather bitter standing in the City than the former, - and the extreme "Right" led by our stalwart Addison who thinks English prices must come down further if they are to regain their trade. All but Norman seem to have adopted the "Purchasing Power Parity" doctrine, - and think that a 12% increase in our price level will cause a 12% increase in the £ (to par with us) whereupon we could lose ^(and thereby) gold to much of the world and our troubles would be over. But there are other factors, which I find Norman appreciates better than most, - and first of all is the "tariff." However - the problem remains that our prices must advance or they decline before Sterling can recover and return par with the dollar.

Probably the middle ground will be found in time, - whereupon the bank rates and interest rates ~~there~~ must be advanced and held above ours to prevent foreign loans hitting Sterling too hard.

Meantime our policy at home should be to take advantage of the hesitation of business, and traders, to lower prices, to build up that investment account. Only by that will we avoid complete loss of influence in the market. If the Treasury, objects, representations must be made to Mr. Mellan that will convince him.

I explained something of the recently deceased "Russian" plan of Dr. Mellan, to Norman, and he at once threw up his hands remarking, "That would mean disaster to now and me!"

Very Confidentially, I have a strong conviction, after an all afternoon discussion with Norman, Rutherford and Addis (The real ones here) that "if" the Dawes report is accepted, we can find a way to deal with the London-New York Exchange that will finally do the job. But it is all in futuro and depends upon that big "if."

Norman has been much harassed, I have been a bit dead - So we have taken things easy, and not gone out for dinner once even - always have breakfast in bed - and once or twice dinner as well. What with Norman's "Amy" (housekeeper) and my Ernest, one would think we were two fragile infants.

We may be asked about a small advance of two on gold. I have no particulars but if it develops will cable you. It would be for one of

the Continental Banks of issue.

Later. Have had a most illuminating visit with
Young and Knickerbocker, - but it is too late to write
any account of it. I shall try to do so tomorrow.
Young tells me he may take the location on the
22^d - & I may do the same.

My best to now all at the bank.

Yours as ever
D.S.

Excuse the paper. It is "Eaze" writing.

London
April 11, 1924

Dear P. J.

The Southampton dock and shipyard strike caused the Majestic and Mauretania sailings both to be changed, leaving no boat until the Franconia (19th) and Olympic (23rd), which arrive only a day apart. I'm awaiting word as to which boat Basil Miles will take, and shall wire you in a day or two what to expect.

[Young?] Owen ^{Young} ~~Gomel~~ arrives here today, with Kinderslie^{es}, and we shall have an interesting talk.

I had an interesting visit also with Niemeyer and Hawtrey, of the Treasury. They were most complimentary regarding the F.R. Board's annual report as were Kiddle of the "Morning ^{Post} Pat" and Mill of the "Times". They seem to think that it finally tells them something.

As to monetary matters, one finds at the extreme "left" Keynes, Adams, et al., in the middle Hawtrey, Cannan, and others of rather better standing in the city than the former--and the extreme "right" led by our Stewart Addis who thinks English prices must come down further if they are to regain their trade. All but Norman seem to have adopted the "purchasing power parity" doctrine--and think that a 12% increase in our price level will cause a 12% increase in the ~~to~~ (to par with us), whereupon we could lose gold to much of the world and our troubles (and theirs) would be over. But there are other factors, which I find Norman appreciates better than most--and first of all is the "report". However, the problem remains that our prices must advance or ^{else} thus decline before Sterling can recover and retain par with the

dollar. Probably the middle ground will be found in time, whereupon the bank rate and general interest rates here must be advanced and held above ours to prevent foreign loans hitting Sterling too hard.

Meantime our policy at home should be to take advantage of the hesitation of business and tendency to lower prices, to build up that investment account. Only by that will we avoid complete loss of influence in the market. If the Treasury objects, representations must be made to Mr. Millan^{er} that will convince him.

I explained something of the recently deceased "reserve" plan of Dr. Miller, to Norman, and he at once threw up his hands remarking, "That would mean disaster to you and me!"

Very confidentially, I have a strong conviction, after an all afternoon discussion with Norman, ~~Riverstoke~~^{Revelstoke} and Addis (the real ones here) that if the Dawes report is accepted, we can find a way to deal with the London--New York exchange that will finally do the job. But it is all in future and depends upon that big "if".

Norman has been much harassed, I have been a bit seedy--so we have taken things easy and not gone out for dinner once even--always have breakfast in bed--and one or twice dinner as well. What with Norman's "Amy" (housekeeper) and Mr. Ernest, one would think we were two fragile infants.

We may be asked about a small advance or two on gold. I have no particulars but if it develops will cable you. It would be for one of the continental banks of issue.

Later. Have had a most illuminating visit with Young and Kindersley--but it is too late to write any account of it. I shall try to do so tomorrow. Young tells me he may take the

Levithan on the 22nd, and I may do the same.

My best to one and all at the bank.

As ever,

B.S.

Excuse the paper--It is "easy" writing.

C
O
P
Y

CONFIDENTIAL

Paris, 7 rue Monsieur, April 23, 1924,
to April 28, 1924.

Dear P. J.

In default of a more prompt verbal report, - delayed by my illness, - here are some of my impressions gathered in London and Paris. They are high spots, only, and the most important object of my trip which has been accomplished, I can only cover by discussion on my return.

The countryside, in South England, looks as before the war. There is much building in evidence, all the farms, fences, roads and buildings look in first class condition. The same appearance impresses one in London; enormous street traffic, much new building and renovating, streets in good order, and a general appearance of activity. I saw nothing of the manufacturing districts in the north, but the impression is general in the city that output, sales and trade are slowly but soundly improving. The figure of unemployment (registered) is regarded as misleading. While 1,100,000 are on the lists for doles, the enormous increase in woman labor and the addition of the small income class now forced into employment, might account for the entire unemployment without reducing prewar effective labor totals. Many mechanics, carpenters and masons are seeking to move to the United States, attracted by the high wages.

The new labor government are facing a constantly increasing number of out-law strikes or attempts to organize them without union support, - the younger men expecting sympathetic assistance from a labor government. They usually succeed in obtaining some wage increases and then return to work. The vote on another coal strike was too close to justify a walk out, and the wage question now goes to a commission for investigation and adjustment.

The Labor Government has kept in the saddle by grace of support from a large section of the Liberal Party, which has recently become an uncertain factor because of dissent within Liberal ranks. The new budget, to be introduced in a day

or two, may be their downfall, although the tradition is for a Government never to risk defeat on budget proposals.

The annual report of the Federal Reserve Board is very favorably commented upon in London by both bankers and students.

Just now England's problems are mainly three - outside of politics,

(1) The high labor costs which restrict their markets, and their possible further increase by strikes, etc., (2) The exchange, both its fluctuation and its recent depreciation, (3) The burden of taxes upon all industry and private incomes.

The Bank of England has regained its position in the money market, long ineffective due to war and post-war finance, by the development of a policy closely resembling our own, but more effective because of the greater concentration and better organization of the market at the one center, than is ours. The bank's policy will be governed by consideration of

- (a) The exchanges,
- (b) The extent to which they are over-burdened by foreign borrowings in London,
- (c) The extent of unemployment,
- (d) The relation of their price level to ours - and our willingness to act in concert with them. Of this more anon.
- (e) The position of the currency note account which promises to threaten their reserve if the present Treasury minute (requiring bank note cover for issues in excess of the previous year's maximum) is continued. Most people fail to realize that this plan operates upon the bank's reserves (in a domestic sense) exactly as gold exports do.

On the whole, I was impressed as to the outlook in England having steadily improved, but still more by the extent of their dependence upon us for a constructive plan looking to monetary recovery and stability in England and Europe. Of this,

more later!

In France I have had little opportunity for observation; but have talked with some well posted people. Paris looks as before the war. There is not as much building as in London, but I hear that business has been good, there is no unemployment, unless the army is considered as its equivalent, and the only obvious difference from pre-war days that I have noticed is the bad condition of all roads. Undoubtedly Government economy is being forced upon them here by the disappointment in reparation recoveries from Germany.

The collapse and spectacular recovery of the franc has hurt their exporters somewhat and fears are expressed that the present very favorable foreign trade showing cannot continue. On the other side is the enormous American travel here this year. It will probably exceed all records. The serious side to the increased value of the franc is the fact that the budget calls for some thirty billions of taxes, which might be no burden at 4¢ or even 5¢ a franc, but at over 6¢ may be hard to collect!

The only word I hear on the elections is that the country will support Poincaré and he is the only issue.

It is, by the way, generally understood that the loans to support the franc have all been repaid in both New York and London and the Bank of France is supposed to have accumulated very large balances in London and some dollars - possibly considerable.

On the whole I should say that the business situation here - thanks largely to travellers and luxury business - is good, and the great problem is that arising from the sins of bad war and post-war finance; namely, the topheavy debts. Solution of reparations will gradually put France back, but only if they have courage to impose and collect adequate taxes so as to make debt refunding an early possibility. The saving virtues of France are industry and thrift by all classes.

4/23-28/24

I hear much discussion of Germany, but not much real information reaches me. They are certainly in a sense whipped in the Ruhr, and now seem to welcome a chance to catch their breath and try something new. Curiously enough the leaders of two most important sections of public opinion pass off the stage at the crisis, Stinnes, leading industrialist, and Helfferich, leading imperialist, - both strong and probably dangerous men in the present situation if in opposition to the Government. Young can tell you the story of Germany better than anyone and I hope you get him to do so.

The most momentous question before the world is now the "Dawes" (Sic) plan. Inadequate information both in New York and London gave me a rather strong prejudice against the plan until I had read and studied the report and then discussed it with Young and Logan. It is a most ingenious and in some ways masterful handling of a situation which has always appeared to be "an irresistible force meeting an immovable object." It proposes impossible things and sets up alternatives to employ when the impossibility has been demonstrated. I like it, that is, in its broad foundation, save in two major respects and possibly three. One is its failure to adequately protect the new currency - another is its failure to consider the whole price problem in Germany, and the third is what may prove the salvation or the wrecking of the plan - i. e., the concentration in one body and largely in one man, of the management of "payments." A man or superman of just the right qualifications might make the plan a stunning success or equally a stupendous failure if he were not the right man. The plan does afford opportunity, at last, for France and England to join hands and for Germany to make a sincere effort, in the direction of good will and tranquility for a few years.

The scheme has, to my mind, certain very ingenious points and some doubtful ones, which it may interest you to discuss with Young.

1st. The amount Germany is to pay is a fixed sum to cover everything.

So military and all other costs come out of the budgets of the creditor nations

and not Germany. It will make the "sanctions" more costly and so less popular in France and Belgium!

2nd. It leaves the United States claims against Germany a bit uncertain as to status and I hope will force our State Department to take a definite position as to sharing in the German payments.

3rd. The interval during which the plan is being organized, could not well be financed - and the pressure upon Germany is growing to be so severe that acceptance of the plan in toto is inescapable. Otherwise another breakdown.

4th. While the total reparations is not fixed, (and that point is much criticised) the creditors can fix it by a simple decision to stop the annuity - after a certain number of years - and the plan having avoided any change in the total (for the moment) escapes the need for action on that point by both the Reparation Commission and the interested governments, which might cause endless haggling.

5th. The annual payments are between three and four times what Great Britain now pays us, and are undoubtedly more than Germany can make, - at least for a great many years. It may on that account mislead the French public into a false sense of prosperity and another disillusionment.

6th. The first two years are so safeguarded, that once the plan is launched successfully, there is a fine chance that the present tense public opinion will cool off before any crisis arises in the execution of the obligations Germany assumes.

7th. The bank scheme is open to some criticism, and yet almost every point can be met if it has honest and capable management, - just as with our Federal Reserve System. I do not like the huge accumulation of funds pending transfer, and fear that it means an inflation which will be very hard to control. The bank may have a tendency to suck the country dry of liquid funds from time to time, and then again to flood it.

8th. One of the most excellent features of the plan is the debenture scheme, especially the industrial. It creates a class of non-political paymasters who will strive to work out their own financial freedom.

9th. If properly set up by the bankers, the loan looks to me to be good beyond the slightest doubt, if any security is worth anything. I shall not attempt details, but the security can be made unquestioned, as Young will explain.

10th. Our bankers should assume the attitude, in general, of desiring to help, always provided the plan is accepted, in toto, in good faith, and with satisfactory evidence of good will justifying the hope or belief that all will try and make it a success, including Germany.

11th. Nothing could be more harmful than to have our leading bankers, (as in one case) say publicly that we cannot make the loan until our war debt questions are settled, - or than to have a member of Dawes own organization, like Col. Ayers, publicly criticise the plan on his return, as reported here.

The above are just a few rambling comments - a book could be written on the subject. Progress toward acceptance of the plan is slow, - but the outlook for prompter action next week has improved in the last 24 hours. It all depends on the French, which means Poincaré. I am rather more hopeful than at any time.

Germany's future, if the plan works, will be an interesting subject of speculation.

I should surmise that her industrial plant, and organization are ready for a great activity. Her leading men and business organizations undoubtedly have vast stores of foreign funds awaiting favorable indications for "repatriation." What she can accomplish is probably much greater than usually understood, but it could all be defeated were the price readjustments, including wages, to work out badly, that is, adverse to her export position (which means competitive position with other nations) or her bank to fail in stabilizing the currency because of reparation accumulations, bad management, or otherwise. The gradual return of

4/20 - 28/24

foreign balances will be an insurance for a time, but when that is ended - they will need to exercise great skill and courage to avoid inflation, and the Reparation Agent will be the one largely to decide. He is "King" of the plan!

Now from the above you may gather that I am always considering our old bugbear, "gold" and the gold standard - and how these new developments fit into our picture. This can only be written out in the crudest sketch. It is too complicated for pencil and paper.

First, of course, all depends upon the fate of the Dawes' plan. If it is successfully launched I would look for two years or so during which Germany would balance her budget and stabilize her currency, - it is not impossible that she might take a little of our gold. That would leave the pound and franc afloat. The British would view (and do) the former with consternation. The French will be more complaisant. So what is the problem as to dollars and pounds? It seems to me to have become simplified in so far as the urgency will grow in London to get back to Orthodox ways as soon as possible; and that feeling has gained a new impulse because of the Dawes plan.

Without elaboration, our interest lies in the earliest possible return to the gold standard, by all the nations, especially Great Britain, so that we may escape these arbitrary controls on which we now rely. England's interest is to return to gold payment, for the ultimate benefit of her trade, and to facilitate paying her debt to us. We should have little difficulty in arranging matters where our interests are so mutually to be served by common action to one end. But how is to be done? On the whole, I believe we must see London rates higher than ours - our "prices" at least a bit higher, and Great Britain's a bit lower - and at the proper moment, a credit operation, secret at first, and only becoming public when £ is fairly close to par. My belief is growing that it will not be long before the job can be attempted. I'll give you more details on my return, and as Prosper said, "We'll see what we'll see."

4/23-28/20

If within ten years of our creation, the Federal Reserve System can have accomplished the restoration of the gold standard, our first decade will have justified itself.

Personal news on a separate sheet.

Yours,

(Signed) B. S.

DRAFT.

24 April 1924.

SECSTATE,
WASHINGTON.

L- CONFIDENTIAL.

Venture to submit following considerations as possibly helpful in examination of questions arising in connection with possible discussions regarding repartition German payments:

FIRST. Since claims question has arisen, unfortunate that Army Cost Agreement unratified, particularly because as Department will recall in latter part of Wadsworth negotiations Allies indicated objection to the United States receiving payment army costs under Agreement and at the same time collecting claims direct from Germany. Hitherto Allied view which is confirmed by confidential information recently obtained fortuitously is that United States either should utilize alien property or because of Article 248 should wait twenty or thirty years. Under the circumstances if United States now presents only German claim and not army costs, some means might be found for leaving Army Cost Agreement unratified. Therefore any new scheme of distribution might well reaffirm that the United States receive payments contemplated by that Agreement. It would be particularly advantageous if such payments could be made integral part of any new agreement regarding distribution and become effective at the same time. A possible objection to this course is that if claims matter be introduced both claims and army costs would be lumped together by the Allies and hence might appear large to them, thereby causing greater resistance.

SECOND. Question presented whether the United States would be entitled

to share under Army Cost Agreement if ratified in proposed payments first two years which are to be expended "almost exclusively within Germany" (page 26). Paragraph (a) page 31 apparently contemplates possible transfer abroad 200,000,000 gold marks. Not yet clear whether any such payments would be credited as reparation other than in kind. Payments applied to clearing houses are obviously not reparation (See footnote Article 2 of Agreement). Probably Allies would hold that forfeit payments for restitution are not reparation.

THIRD. Further question as to bearing of principle embodied Article 3 Army Cost Agreement on repartition proposed German loan. The United States must decide whether it desires to claim share in this loan, which otherwise would be used for covering deliveries in kind, British Reparation Recovery Act, and possibly current Army costs or other payments.

FOURTH. With respect to claims one policy would be to make entirely separate arrangement with Germany. While appreciating that there is some possibility that this policy might yield better results than effort to share with the Allies, it would involve great risk and particularly might generate ill-feeling and endanger prospects of general settlement apart from indicating lack of confidence in a settlement. Notwithstanding difficulties I doubt whether Department will find any time more favorable than this for raising question of American claims in view of references covering them in Experts' report and further in view of service rendered by Experts and European gratification at renewed American interest in reparation question. In case participation claimed in proposed German payments, United States might propose that it agree with Germany that the latter pay the United States X gold marks yearly beginning perhaps in third or fourth year of plan when other governments would begin receiving some reparation other than in kind, payments to the United

States to continue until total claim discharged. One advantage of flat global annual sum instead of percentage of annual payments is that should Germany not meet payments under the plan in full nevertheless might continue paying our annual fixed sum on the ground that it was a liquidated amount under separate treaty rather than an integral part of scheme devised primarily under Treaty of Versailles. It would be less objectionable to the Allies were the United States to grant that these payments would rank pari passu with payment to them for all purposes other than army costs and expenses of control. The risk of an absolute limitation in that sense is of course that the United States might find difficulty in getting paid in full should the Allied reparation policy continue to be such as to prevent ~~the~~ substantial payments, Germany ~~can make~~.

FIFTH. The United States might agree to credit on claims the value of cables. In case this offers accounting difficulties the United States could credit this sum on capital amount of army costs.

SIXTH. Do not know what can be said as to disposition alien property, but presume Executive cannot commit the United States to any policy in the matter. *Executive upon to recommend to Congress the* The United States, however, might ~~at least agree to~~ *the capital amount of the* credit on its claim the value of any property of the German Government or States, also ~~to~~ credit the value of any private property of German nationals that it may actually liquidate. ~~such credits to be subtracted from the total claim.~~ Unless possible political objections at home should be too serious an obstacle and if there is any possibility of utilizing this property in any way, consideration might be given to the President recommending to Congress use of this property under either of the following alternative plans:

(a) Waiving for the present questions of possible technical legal

difficulties, probably surmountable, something in the nature of a mortgage lien perhaps guaranteed by Germany might be placed on German property held by Alien Property Custodian. Said mortgage to be redeemed both as to principal and interest within a given period of years, upon completion of which the property would be surrendered. Such a mortgage lien, with bonds issued against it as security might afford means of raising ready money partly to satisfy judgments of Mixed Claims Commission. This course milder than policy of expropriation followed by other governments with respect to similar property in their jurisdictions, and could be justified as placing upon these German owners burdens comparable with those proposed under industrial debenture scheme of Experts. Also partly meets Allied view that the United States should utilize this property before seeking direct payments. If this suggestion at all practicable, question must be considered whether amount of charge, which may require Germany to make corresponding compensation to owners out of her budget, should not be included within 5 billion industrial debentures, particularly in view of statements in report as to inclusive nature of charge.

(b) A further alternative would be to liquidate German property under agreement with the German Government whereby German owners would be compensated by Germany out of a share in Germany's payments under Experts' plan, to which the United States might become entitled as the result of negotiations with the Allies. In this way compensation would be made in marks out of special account in Bank of Germany thereby obviating exchange difficulties to the extent that Germans to be compensated reside within Germany. Further advantages are that this plan would provide for compensation and assign definite resources

to facilitate such compensation, it might be less objectionable at home because consistent with Experts plan and not involving additional burden upon Germany, and further might appeal to the Allies in view of the fact that the United States would be requesting only mark payments on an equal footing with them. Disadvantages are those inherent in any use of German property or in

any mode of ~~direct~~ participation with the Allies, ^{which gives the U.S. a direct interest in} ~~in procuring~~ Germany's fulfillment of her ^{reparation} obligations. ~~Will be noted that alternatives (a) or (b) would~~ ^{above method}

^{Also this method would} partly meet Allied view that the United States should utilize alien property as they have done.

^{Seventh} ~~Eight~~. In any negotiations on foregoing points Allies likely to raise question of application to our claims of value of German ships taken over by the United States just as this question raised in Army Cost Conference. I shall require explicit instructions as to response to be made on this point in view of quite different situation. On Army costs our claim was against Allies for reimbursement on theory that they had already received our army costs. As to our other claims, however, which are against Germany direct, Allies will probably take view that any German property seized by us and permanently retained should be employed as set off against capital amount. Also in case we agree to credit cables and not ships it will be necessary to explain why we credit one and not the other.

^{Eighth} ~~Ninth~~. Further question may be presented whether the Executive is competent to waive any part of total American claim. Have noted your statement that the United States has not claimed under certain categories on which the Allies have insisted. In this connection may mention purely for Department's confidential information and not for use in any discussions that a number of

one of the Delegations here has calculated that Germany's debt would be 53 instead of 132 billions were claims for pensions and separation allowances omitted. Department will note that under Experts' plan capital value^{of} proposed annuities may be less than 4 53 billion. Notwithstanding the fact that the United States did not insist on certain categories it may be anticipated that the Allies, if disposed to admit United States claim at all, will ~~feel~~^{probably} feel that it should be put in on an equal footing with the 132 billions for such scaling down as may be necessary, holding the view that if the United States waived any categories that was entirely its own responsibility.

DRAFT.

SECSTATE,
WASHINGTON.

L- . CONFIDENTIAL.

Venture the following suggestions as possibly helpful in determining position to be taken in connection with discussion of repartition German payments:

FIRST. The first major question of policy is whether the United States shall now seek participation in payments under Experts' Plan with a view to payment American claims. The alternatives are as follows:

- (a) Non-payment or indefinite postponement, which would obviously be prejudicial.
- (b) ~~Directly~~ ^{Separately} to seek ^{direct} payments from Germany. This however would tend to break down Experts' Plan concerning budget and transfers, apart from being inconsistent with general line of policy of cooperation embodied in American official approval of designation American experts.
- (c) Utilization German property in the United States. According to preliminary information received, value this property not sufficient to cover total claims therefore presume ^{in any event} some other means must be found for reimbursement from Germany.

SECOND. According to above reasoning, waiving for the moment question of possible use of German property, inclined to the view that the United States should claim share in payments in question. Doubt whether Department will find any time more favorable for raising question in view of references in Experts' report covering claims and further in view of service rendered by Experts and European gratification at renewed American interest in reparation problem. In case participation claimed in German payments, the United States might propose that it agree with Germany that the latter pay to the United States X gold

marks yearly beginning perhaps in third or fourth year when other governments would begin receiving some reparation other than in kind, payments to the United States to continue until total claim discharged. One advantage of flat global annual sum instead of percentage is that should Germany not meet in full payments under the Plan nevertheless might continue paying our fixed sum on the ground that it was a liquidated amount under separate treaty rather than an integral part of scheme devised primarily under Treaty of Versailles. Allies however if admitting claim at all likely to ask that payments to the United States be made only pari passu with payments to them for all purposes other than army costs and expenses of control. Acceptance such limitation would make difficult full payment to the United States should Allied reparation policy be such as to prevent substantial payments. On the other hand, placing American claim in no more privileged position than ~~ether~~ theirs would make it more palatable.

THIRD. A second major question relates to alien property. Do not know what can be said as to disposition this property, or whether possible political objections at home are too serious an obstacle to raising the question, ~~but~~ Presume Executive cannot commit the United States to any policy in the matter, ~~Executive however~~ ^{but} might agree to recommend to Congress crediting on the capital amount of the scheme the value of any property of the German Government or States, also to crediting the value of any private property of German nationals that it may actually liquidate. A further step would be actually to urge liquidation as the only practicable means to get substantial payments without indefinite delay. If the United States is ever to liquidate, the disadvantages are not

likely ever to be less than at this time, when it may be possible to negotiate a plan whereby German owners may be fully compensated out of deposits to be established in German bank. This plan has many advantages and obviates exchange difficulties to the extent that German owners could be compensated by payments within Germany. This plan would provide definitely for compensation which would be facilitated by assignment of special funds therefor, and might therefore be less objectionable at home because consistent with Experts' Plan and not involving additional burden upon Germany. Further ~~would~~ in some degree meet Allied view that the United States should utilize alien property as they have. Disadvantages are those inherent in any use of German property or mode of participation with the Allies which gives the United States direct interest in Germany's fulfillment of reparation obligations.

Allies might of course object that last mentioned suggestion in effect would be to make ~~not~~ use at all of German property. A partial answer to this objection would be that compensation to expropriated Germans might in part be made out of untransferrable balances in Germany. A further objection is that the United States could not hope to have allocated to compensating such Germans sums comparable in the first few years to amount required, *the compensation obviously a matter primarily of concern to Germany.*

FOURTH. A further possibility, which presents technical legal difficulties, probably surmountable, is to place something in the nature of a mortgage lien perhaps guaranteed by Germany on alien property, such property to be held till mortgage paid. Such ^a mortgage lien with bonds issued against it would afford means of raising ready money, would be milder than policy of expropriation followed by other governments, could be justified as placing on German owners burdens comparable with those proposed under industrial debenture scheme of Experts and also partly meets Allied view that the United States could utilize

this property before seeking direct payments. Objection is that proposed bonds might not be readily marketable because of possible uncertainty as to their status. If this suggestion at all practicable, question presented whether compensation by Germany to owners should be included within five billion industrial debentures under Experts' plan.

Fifth. Since claims question has arisen, unfortunate that Army Cost Agreement unratified, particularly because as Department will recall in latter part of Wadsworth negotiations Allies indicated objection to the United States receiving payment army costs under Agreement and at the same time collection claims direct from Germany. Allied view not officially put forward but confirmed by confidential information recently obtained fortuitously is that United States either should utilize alien property or because of Article 248 should wait twenty or thirty years. Under the circumstances if United States now presents only German claim and not army costs, some means might be found for leaving Army Cost Agreement unratified. Therefore any new scheme of distribution might well reaffirm that the United States receive payments contemplated by that Agreement. It would be particularly advantageous if such payments could be made integral part of any new agreement regarding distribution and become effective at the same time. A possible objection to this course is that if claims matter be introduced both claims and army costs would be lumped together by the Allies and hence might appear large to them, thereby causing greater resistance.

Sixth: Question presented whether the United States would be entitled to share under Army Cost Agreement if ratified in proposed payments first two years which are to be expended "almost exclusively within Germany" (page 26).

Paragraph (a) page 31 apparently contemplates possible transfer abroad 200,000,000 gold marks. Not yet clear whether any such payments would be credited as reparation other than in kind. Payments applied to clearing houses are obviously not reparation (See footnote Article 2 of Agreement). Probably Allies would hold that forfeit payments for restitution are not reparation.

Seventh: Further question as to bearing of principle embodied Article 3 Army Cost Agreement on repartition proposed German loan. The United States must decide whether it desires to claim share in this loan, which otherwise would be used for covering deliveries in kind, British Reparation Recovery Act, and possibly current Army costs or other payments.

Eighth: The United States might agree to credit on claims the value of cables. In case this offers accounting difficulties the United States could credit this sum on capital amount of army costs.

Ninth: In any negotiations on foregoing points Allies likely to raise question of application to our claims of value of German ships taken over by the United States just as this question raised in Army Cost Conference. I shall require explicit instructions as to response to be made on this point in view of quite different situation. On Army costs our claim was against Allies for reimbursement on theory that they had already received our army costs. As to our other claims, however, which are against Germany direct, Allies will probably take view that any German property seized by us and permanently retained should be employed as set off against capital amount. Also in case we agree to credit cables and not ships it will be necessary to explain why we credit one and not the other.

Tenth: Further question may be presented whether the Executive is competent to waive any part of total American claim. Have noted your statement that the United States has not claimed under certain categories on which the Allies have

insisted. In this connection may mention purely for Department's confidential information and not for use in any discussions that a member of one of the Delegations here has calculated that Germany's debt would be 53 instead of 132 billions were claims for pensions and separation allowances omitted. Department will note that under Experts' plan capital value proposed annuities may be less than 53 billion. Notwithstanding the fact that the United States did not insist on certain categories it may be anticipated that the Allies, if disposed to admit United States claim at all, will feel that it should be put in on an equal footing with the 132 billions for such scaling down as may be necessary, holding the view that if the United States waived any categories that was entirely its own responsibility.

Eleventh
~~Eleventh~~

Desire to emphasize urgency of a prompt decision. Quite possible that unknown to the United States present and future conferences between governments may frame up division of all the funds prior to meeting of finance ministers' conference which would be only to confirm informal understandings. Such agreements among the governments when once reached are almost impossible to upset. In view of specific language of Experts' report covering American claim, quite possible that Allied Governments will act concertedly in preparing measures to exclude the United States, in which they have a common interest. Therefore believe it very important that American position be formulated at once. Of course there might be danger in introducing questions of repartition at this stage, but the United States might at least inform the governments that it expects to negotiate with them an agreement as to participation on a fair basis in the payments in question, expressing at the same time the ^{definite} view that this question ~~is distinctly to~~ ^{should} be raised only after agreement has been reached between the Allies and Germany on the basis of the Experts' report, *at which time it will make known its desires in the matter & its plan.*

~~Eleventh~~ *Twelfth*. Anticipate very strong opposition to American claim on the ground that the United States did not ratify the Treaty, that the United States has not liquidated German property, and that the United States assumes no responsibility for enforcing payments under the Treaty while claiming its advantages. In case United States makes claim, believe therefore it should be presented on broadest grounds of equity, avoiding discussion of technical questions.

note -

the position as to
delay in presenting American claims against
Germany may ~~result in a German~~ result
in Embarrassment if in the meantime
Germany's other creditors agree among
themselves as to how payments are to
be divided -

note

Stones the priorities for Cost of Army
of Occupation provided in the "Warworth"
agreement be incorporated in ^{an} adjustment
made with us, resulting in deferred
liquidation of "mixed" claims, our
Citizens might charge that their
interests had be abandoned in favor
of ^{the} Government's financial claims.

THE QUESTION OF DEBTS DUE TO THE UNITED STATES
WITH PARTICULAR REFERENCE TO EXPERTS' REPORTS

The Experts' Reports contain certain principles which have been or may be alleged to bear upon the settlement of inter-governmental debts.

- I. The limitation of payments to capacity, in the estimation of which consideration is given to:
 - (a) Commensurate burden of taxation
 - (b) Balancing of budgets, and
 - (c) Possibility of Inter-National transfer of funds
- II. Payments ought only to be made out of budgetary surplus, if financial and monetary stability is to be maintained.
- III. Exchange should be stabilized and maintained stable as a condition of payment.
- IV. Reductions, in effect, of the capital amount of the debt, in application of the principle of capacity.
- V. A moratorium to permit of reconstruction; a foreign loan to facilitate reconstruction.
- VI. An index of prosperity, and provision for modifying annual payments if the gold prices change.
- VII. Gradual increasing ~~scale~~ of payments.

ADVANTAGES AND DISADVANTAGES OF A PROMPT SETTLEMENT

To U.S.

I. ADVANTAGES

- (a) Revenue from debts would permit lighter taxation.
- (b) Settlement would remove friction and source of possible

future trouble (Cf. advantage of British debt settlement).

- (c) Debt settlement would contribute to stability in Europe and thus help the United States. European countries hold rightly or wrongly that the debts must be settled before they can stabilize their budgets and currency on a definite basis.
- (d) Lapses of time without a settlement tends to lead debtors and also American public in to taking debts less seriously. This has happened in the case of other debts in default for long periods. The view grows that such debts cannot be paid, and the movement for cancellation may increase.
- (e) Cancellation of debts to Great Britain for example, even though for some quid pro quo, might be held in some quarters to prejudice the American position.
- (f) The growth of compound interest contributes to the view that the debts are larger than can be met.
- (g) Settlement of the debts will facilitate restoration of the gold standard in Europe, without which there is grave danger of American inflation. The way would be paved for loans to facilitate restoration of the gold standard.

DISADVANTAGES

- (a) Would promote extravagant expenditures, such as for the soldier bonus. As long as there is this possibility European countries will be more reluctant to settle.
- (b) The United States would lose a club over Europe. (But it has not yet made much use of it).

- (c) If the United States waits, the British may settle debts owing to them on a reduced basis, or they may wipe them out for a quid pro quo. In that event, it would be easier for the debtors to pay the United States, whereas if an American debt settlement is first made the debtors would feel bound to treat the British debt on a like basis, but might feel that the burden would be so great that they would be reluctant to make any settlement with the United States.

II. EUROPE

Advantages:

- (a) Would remove an uncertain element in their finance and currency situation.
- (b) Would avoid the accumulation of compound interest and higher rates than those eventually payable.
- (c) Would help their credit by an evidence of economic strength.

Disadvantages:

- (a) Would impose immediate burden.
- (b) Passage of time increases the chances of either cancellation or settlement favorable to the debtors. Even though compound interest accumulates, the ^{very} ~~general~~ growth of the debt goes to support the thesis that these governments cannot pay

THE DAWES PLAN AND AMERICAN CLAIMS AGAINST GERMANY.

I. Our claims fall into two classes:

Claim A: Army Costs.

Claim B: Awards of Mixed Claims Tribunal for damages to person and property.

II. Assuming that the Dawes Plan is to be put into execution, the United States has three alternatives with respect to collecting these claims:

- (1) To participate in the Plan, taking a fixed percentage, or an annual lump sum, to be applied to both claims, or at all events to Claim B.
- (2) To hold aloof, to insist on the ratification of the Wadsworth Army Cost Agreement (See footnote), and to endeavor to collect Claim B directly from Germany.
- (3) To waive the claims.

III. The third alternative being unthinkable, the choice lies between participation and abstention.

IV. Participation seems to be preferable, if not imperative, for the following reasons:

- (a) The Plan appropriates Germany's maximum capacity of payment - both her budgetary capacity and her transferrable capacity.
- (b) If the United States attempts collection outside the Plan, either the collection or the Plan fails. The whole theory

Footnote: By the Army Cost Agreement, Claim A may be paid by the Allies, if ratified by France; but we would then indirectly enjoy the benefits of the Plan because the Allies pay us only out of what cash they receive under the Plan. Since the Army Cost Agreement is not yet ratified, the Allies, for all practical purposes, will take this financial factor into account in dealing with us whether we participate in the Dawes Plan or not. If we go in, they will either urge that the Cost Agreement be discarded and everything taken from the sum allocated to us, or they will use the Agreement as an argument for keeping our percentage low. If we hold aloof, they may condition ratification upon our agreeing not to collect other sums from Germany for a long period of years, or they may decline to ratify at all.

of the Transfer Committee's control becomes illusory when large transfers are demanded outside the scheme. If the Plan fails through American action, aside from the ill-will of the Allies, we shall have another European financial debacle and an internal German collapse.

- (c) The United States has a moral obligation as well as an economic interest in seeing the Plan succeed. However unofficial, to a degree we sponsored the idea, our citizens played a large part in formulating it, and we should foster, not wreck it.
- (d) The present is a golden opportunity to fund, as it were, our claims against Germany in sympathetic cooperation with the Allies instead of in competition with them. Hitherto they have maintained that under Article 248 of the Treaty of Versailles their claims have an absolute priority and ours only a second lien. Now the conditions are such that they would probably agree that our claims be adjusted on a parity with their own, because -
 - (1) There is a friendly appreciative atmosphere due to our informal stimulation of the convoking of the Experts and President Coolidge's public approval of the Plan.
 - (2) There is need for a substantial loan from America to initiate the Plan.
 - (3) There is a direct advantage to the Allies in our participation because of the moral effect such participation would have in influencing Germany to observe her obligations under the Plan.
 - (4) There is an express statement in Section XI, Part I of the Experts' Report to the effect that the all-inclusive payments contemplated comprise all amounts for which Germany may be liable to the Allied and Associated Powers for all costs arising out of the war. The United States was an Associated Power.

V. If we are to participate, certain problems arise which must be solved speedily because an Inter Allied conference seems imminent. The principal problems are:

First. The exact amount of our army cost claim must be fixed and stated; and the approximate amount of our damage claim must be estimated.

- Second. Whether the army cost claim is to be satisfied in priority to, or on an equality with, the damage claim must be decided.
- Third. Whether the United States will accept only a portion of cash annuities accruing under the Plan, or whether it will also take a block of the railway bonds and industrial debentures must be determined.
- Fourth. Whether the following properties are to be credited on either or both of the claims must be considered:
- (a) The value of German ships expropriated during the war.
 - (b) The value of the cables to be allocated to the United States under Annex VII, Part VIII of the Treaty of Versailles.
 - (c) The value of enemy property sequestered in the United States (see footnote).

VI. As to the enemy property, it appears that its disposition is contingent upon the action of Congress. A practical and fair method would appear to be for the Executive to recommend the liquidation of the property and its application to the claims upon the proviso that the individual German owners should be reimbursed by Germany out of the mark funds deposited in the Bank of Germany pursuant to the Experts' Plan. This procedure would have the advantage of not taking any private property without compensation, and the further advantage of eliminating the problem of exchanging marks to the extent that private owners were residents of Germany or were willing to accept part payment. The Allies are averse to our releasing German

Footnote: As to the foregoing three categories of property, the question of their credit, if any, must be settled whether we participate in the Plan or attempt to make collections directly from Germany.

property (whereas they liquidated it) and then claiming direct payment from Germany instead of using the funds in hand. Inasmuch as Congress will probably not have acted before the InterAllied conference, perhaps the most the Executive can do is to promise recommending some form of liquidation and credit on the claims.

- VII. The question of participation in the Plan probably requires consideration of the extent, if any, to which Congress must be consulted. In the case of our army cost claim the Executive has already acted alone. There appears to be no constitutional inhibition upon the Executive similarly negotiating for the adjustment of the damage claims payable to our nationals where no questions of waiver or reduction are involved.
- VIII. The alternative to a definite decision to participate, if constitutionally proper, is (a) to make a reserve of the rights of the United States when the Plan is adopted, and (b) thereafter watchfully to wait in the hope that our claims may somehow be slipped through. The very making of a reserve will cast some cloud on the Plan, and a subsequent direct attempt at collection may break the Plan down. It seems preferable to aid Europe and ourselves by joining in the Plan.

Note

Delay in presenting the position as to American claims against Germany may result in embarrassment if in the meantime Germany's other creditors agree among themselves as to how payments are to be divided.

Note

Should the priorities for cost of army of occupation provided in the "Wadsworth" agreement be incorporated in any adjustment made with us, resulting in deferred liquidation of "mixed" claims, our citizens might charge that their interests had been abandoned in favor of the Government's financial claims.

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First. The exact amount of our army cost claim must be fixed and stated; and the approximate amount of our damage claim must be estimated.

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VI. As to the enemy property, it appears that its disposition is contingent upon the action of Congress. A practical and fair method would appear to be for the Executive to recommend the liquidation of the property and its application to the claims upon the proviso that the individual German owners should be reimbursed by Germany out of the mark funds deposited in the Bank of Germany pursuant to the Experts' Plan. This procedure would have the advantage of not taking any private property without compensation, and the further advantage of eliminating the problem of exchanging marks to the extent that private owners were residents of Germany or were willing to accept part payment. The Allies are averse to our releasing German

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- VII. The question of participation in the Plan probably requires consideration of the extent, if any, to which Congress must be consulted. In the case of our army cost claim the Executive has already acted alone. There appears to be no constitutional inhibition upon the Executive similarly negotiating for the adjustment of the damage claims payable to our nationals where no questions of waiver or reduction are involved.
- VIII. The alternative to a definite decision to participate, if constitutionally proper, is (a) to make a reserve of the rights of the United States when the Plan is adopted, and (b) thereafter watchfully to wait in the hope that our claims may somehow be slipped through. The very making of a reserve will cast some cloud on the Plan, and a subsequent direct attempt at collection may break the Plan down. It seems preferable to aid Europe and ourselves by joining in the Plan.

~~L. R.~~
~~Our decision may require revising decisions~~
~~now imminent among the allied Govts. - at which~~
~~May 5, 1924. we will not appear~~