

October 17, 1923.

My dear Mr. Gerhardus:

I have been awaiting word from Governor Strong with respect to the letters which he received from Colonel Logan since the early part of March. Although I have endeavored to keep a complete record of the letters as they were received, I find that the letters mentioned under date of May 11, June 8 and July 13 are not included, but I cannot say for certain that they were not received. The last two letters from Colonel Logan dated September 25 and 28 were duly received and forwarded to Governor Strong. In the letter of September 28 is mentioned a letter of September 14 which I have no record of.

As soon as the memo which I have requested from Governor Strong is received I shall send you a complete list of the letters which he has received since the early part of March.

Sorry that there is some delay in sending you this information, but I trust it will not in any way inconvenience you.

Very truly yours,

Secretary to  
Governor Strong.

Mr. A. J. Gerhardus,  
Secretary to Colonel Jas. A. Logan, Jr.,  
18 Rue de Tilsitt,  
Paris, France.



November 20, 1923.

My dear Mr. Gerhardus:

Supplementing my letter of October 17, the following are the dates of the letters which Governor Strong received from Colonel Logan since March 1, 1923. I hope they tally with your record.

March 1, 1923	June 8, 1923
" 2, 1923	" 14, 1923
" 8, 1923	" 15, 1923
" 9, 1923	" 29, 1923
" 16, 1923	
" 23, 1923	July 13, 1923
" 29, 1923	" 26, 1923
	" 27, 1923
April 12, 1923	
" 19, 1923	Aug. 17, 1923
" 20, 1923	
May 3, 1923	Sept. 7, 1923
" 11, 1923	" 14, 1923
" 31, 1923	" 25, 1923
	" 28, 1923

*not in  
Strong  
Paper*

Very truly yours,

Secretary to Governor Strong.

Mr. A. J. Gerhardus,  
Secretary to Colonel Jas. A. Logan, Jr.,  
18 Rue de Tilsitt,  
Paris, France.



CONFIDENTIAL

January 11, 1924.

Dear Logie:

This is a very confidential reply to yours of the 28th of December.

Some parts of your inquiry I shall not attempt to answer for I could only do so satisfactorily verbally, and anyway I prefer not to answer them without having the opportunity to see you or to discuss the matter with some one in whom I had complete confidence.

The man you mention has some personal means of his own, which I believe are in such shape that they do not produce him a very large income. He has one dependent daughter; his other two daughters are married. His present salary I believe is \$30,000 a year. He has had a wide experience, and I think is intellectually equipped for a job of that sort. He is exceedingly careful about money - the kind of a man who will never spend a cent unnecessarily or wastefully. He speaks no foreign languages; he never went to college - is altogether self-educated; has got a perfectly astonishing memory; is an omniverous reader, and exceedingly well posted on modern history. He is reserved, somewhat inclined to be impulsive, and as is often the case with such men, at other times morose. He is not tactful and is not the type of man whom you would describe as popular in a personal or social way. In other words, he lacks personal magnetism. [Handwritten initials]

I cannot go much further in this in enumerating his qualifications or disqualifications. He and I have been associated now for a good many years. I have formed a high respect for his ability in many ways, but personally do not get along well with him. This is not at all a satisfactory reply to send, but in a very general way I would incline to the view that all of his qualifications are satisfactory, except some of those personal characteristics which sometimes give rise to a little friction. If you know of anyone here who is going over to Paris to whom I could talk unreservedly, I would try to give you a little more <sup>local</sup> color and atmosphere of the man than is possible in a letter.

Some day when I get my job finished up here, I am going to be interested in looking into some of these European matters, so you must hang on long enough for me to come over and be sort of a silent partner behind the scenes. I wish tremendously that it were possible for me to get over while the Commission is at work and make some little contribution or be of some help.

I have the beginning of a long letter sketched to you which I hope to send off sometime today or tomorrow. With every good wish, I am,

Yours sincerely,



January 12, 1924.

My dear Logie:

In your last letter of December 14 you said you would like to have "my reaction and advice" in regard to the two proposed committees just appointed by the Reparations Commission.

This suggests a wide range of theoretical and practical discussion, in fact, exactly what I had hoped to talk over with you had we not been disappointed in your Christmas trip home.

Just before Owen Young sailed, I had a few words with him about the work of his committee, told him that I would write you, as you had asked me to do, and would suggest that you show him my letter. So this is the letter.

It has, of course, become obvious that the balancing of the German budget depends upon the arrest of further inflation of the currency and its further depreciation. On the other hand, the arrest of further inflation and depreciation in turn depends upon and cannot be accomplished without a balancing of the budget. There seems to be a hopeless impasse without the aid of some outside intervention to stay these compensating and disastrous developments.

It is foremost in my mind to express a very urgent warning against attempts to find a magic remedy for this situation which will work overnight and accomplish all the results desired without any intervening period, -and quite a long one - of gradual improvement, but unavoidably accompanied by a good deal of distress. Any very sudden change in the monetary situation in



Germany which would considerably enhance the purchasing power of the paper mark would cause about as much social and political dissatisfaction as has been caused by the process of depreciation.

The occurrences of the past nine years must have caused some impairment not only in the morale but in the morals of the German people. Depreciation amounting to confiscation, a legalized form of robbery, has taken property away from large classes of people and impoverished them and at the same time others have been enriched. It has left the State bankrupt. Any sudden change now in the other direction would only repeat that operation as to other classes but in a different way and only intensify dissatisfaction and social unrest.

On the other hand, the public generally has been inclined to greatly exaggerate the significance of inflation considered alone of itself as distinguished from those indirect results of inflation which impair the ability or willingness of people to work and produce.

Currency, bank credit, government bonds, taxes, and the like, are simply bookkeeping instruments, after all. They produce nothing; they have no intrinsic value as food, clothing or shelter; and what really counts for the welfare and contentment of people is the property which they own and use - the real estate, homes, factories, transportation and communication lines, and stores of goods, and their ability to work with these instruments and enjoy the fruits of their work.

Distinguishing, therefore, between the property of a nation, and its bookkeeping system, it may be said that so long as people are willing to work and produce, the value of a nation's property does not become impaired by changes in its bookkeeping instruments, but that changes in bookkeeping instruments, if not too extreme, simply effect a redistribution of the ownership and enjoyment of property and goods, so that some classes of people become impoverished and others enriched in such an unjust and unwholesome fashion as to



cause discontent. There are, therefore, before these two committees two major problems: for the first, stabilizing both the currency and the budget; for the second, locating hidden assets abroad which may be made available to the State.

As to the first, and referring at once to the currency and bearing in mind especially that the population of a country can readjust its affairs to almost any given condition of the currency once it is stabilized in purchasing power (but that constant changes and readjustments are what cause hardship and trouble) consider that the people of Germany are divided into three great classes so far as currency changes effect their welfare. These are:

- (1) The wage-earner
- (2) The producer and trader
- (3) The investor.

As to the wage-earner. This is by far the most important class in numbers, including all of those who work in factories and in transportation, all clerks in the Government's employ, and in stores, banks, etc. Contrary to common understanding, it is my belief that in the later stages of inflation and when means of readjustment are reasonably well perfected, the wage earner does not suffer as much as is commonly supposed. It depends upon how well organized he is. An illustration of the position of labor toward inflation and deflation would be roughly as follows:

The employes of the Government, of industry, of transportation, even the clerks in stores and banking houses, become somewhat protected against currency depreciation by various schemes which regularly and frequently enable them to fix their own nominal wages in paper marks by reference to an index number, which will insure that the nominal amount of paper which they receive corresponds to a true wage scale when measured by the buying power of the paper. This is the major influence of numbers, represented by the working class over the minor influence of the few represented by the employer. In the course of time the



greater number of workers will always be able to impose their will upon the employer minority in such a matter as this. On the other hand, when deflation occurs and the buying power of money increases, the wage earner, who looks back upon an earlier period of suffering due to insufficient food, clothing, etc. becomes very reluctant to accept a readjustment of his nominal wages downward, even by the same method of adjustment, and a period of deflation leaves the employer no less at the mercy of the wage earner, than he was in the later stages of the period of inflation.

As to the producer and trader. This class would mainly include all farmers, all manufacturers, all of those who buy goods for resale. Leaving out of consideration for the moment the status of debts (and the unequal degree of depreciation of currency which had occurred when different debts were contracted) the situation as to this class depends very much upon the character of the production or trade in which each is engaged. While the farmer is cultivating his land, paying labor, buying his fertilizer and supplies, and making an investment, so to speak, in a crop, the currency may indeed be rapidly depreciated, but nevertheless its value <sup>(the crop)</sup> when produced automatically readjusts to the depreciation in the currency. If he has owed a mortgage payable in a fixed sum of money, he has the advantage of getting out of debt at small cost. On the whole, his position is capable of readjustment without very great hardship during the period of depreciation of the currency. Nor indeed will he suffer very seriously at any time if he has sufficient capital to conduct his business without remaining in debt at the time when deflation takes place. Then indeed he may find himself with a crop on his hands which will repay to him but a fraction of what his outlay has been and make it impossible for him to pay what he owes.

The case of the trader is at the other extreme of this class. The various devices for buying and selling which I understand have now developed in Germany enable those who neither make long commitments to buy nor accept



long time obligations for what they sell to survive the period of inflation and should probably enable him to survive a period of moderate deflation without very great loss. But again he must be out of debt!

The manufacturer who owns plants and is engaged in processes of manufacture which take considerable time, especially those requiring raw materials from abroad, suffers in varying degree during periods of inflation and deflation both, and the extent to which he is affected depends almost entirely upon the skill with which he is able to adjust contracts for purchase against contracts for sale, so that constantly shifting amounts of wages and other outlays, expressed in paper money can be compensated out of the readjustment of the prices paid for raw materials or received for finished goods. The longer the time required for his processes, the more difficulty he encounters in adjusting his prices and costs.

It is, however, the capital operations of proprietors who have exploited the investing classes in Germany which have indeed probably been an important cause of distress and complaint. An extreme illustration of the opportunity afforded to the exploiter would be about as follows:

Assume that not long after the Armistice a man of means purchased a manufacturing plant from, say, 1,000 stockholders who had previously owned it, at a total purchase price of one billion marks, at that time the equivalent of, say, \$50 millions gold, and either gave the sellers or the banks notes payable in five years. Assume that this exploiter had kept the plant in operation and was able to buy domestic material, pay wages and the cost of upkeep of the property. Assume that he was also able to export enough of his product to purchase raw materials required from abroad, and still accumulate a profit in bank in New York of \$500,000 - or \$100,000 a year, - he could today repay the billion marks purchase price by the use of an infinitesimal part of the \$500,000 of profit and have a plant intrinsically worth \$50 millions, gold, free of all



encumbrance. The 1,000 people from whom he had purchased the property would indeed have been impoverished (unless they had had the foresight to at once invest in other fixed property, in which case those from whom they in turn purchased might have been impoverished.)

This is an extreme illustration of the method by which the shift in the ownership of real property takes place during the course of inflation to the advantage of the profiteer and to the disadvantage of the small investor whose living cost becomes insupportable. On the other hand, if the transaction were conducted by the use of money borrowed for a long period on mortgage, a period of deflation would likely bankrupt the owner and cause a transfer of ownership of the property to a new class of people, namely, the investors who owned the bonds. It is indeed with this class of people - the exploiting manufacturer, and the like - who control the ownership or use of the great bulk of the industrial properties of Germany, where the influence of debt upon ownership becomes so important in periods of inflation and deflation that the opportunity for exploitation is the greatest, and where changes in the purchasing power of the currency are used as or become the means of defrauding people out of their property.

Leaving out of consideration the use of credit, it is probably true that the processes of manufacture and the distribution of manufactured goods could take place with reasonably good results and without unbearable hardship to the proprietors or the public if the employment of credit did not afford the opportunity for this species of exploitation.

As to the investor. The picture is clear enough. All of those who own the fee to lands which they have leased to tenants for long terms for fixed sums in a currency of a high purchasing power; all of those who have loaned money payable, principal and interest, in fixed sums; and all of those who own bonds and other investments, payable in fixed sums, principal and interest; are more or



less impoverished during the period of inflation, while the debtors on these respective obligations have been freed of their debts to a greater or less extent at slight cost. The investors are the victims of circumstances over which they had no control. They have, in fact, had their property taken away from them by a form of taxation (inflation) which is the equivalent of complete confiscation or else they have been the victims of exploitation by those who had command over credit, because they could not afford to keep their property in the face of rising living costs.

The lesson to be drawn from such an upheaval as Germany has experienced is a fairly simple one. Large classes of people become impoverished by great changes in the purchasing power of the currency. Other classes of people small in number but having sufficient influence to command credit become enriched by acquiring real property free of debt. The progressive depreciation in the currency causes so much suffering to those classes which are impoverished that the morale of the nation becomes undermined, work becomes less efficient and productive, and finally, true values are affected because production is reduced. The influence upon the government, aside from the social and political questions which arise, are mainly those bearing upon the budget. The rapidity with which the snowball of inflation grows in size is really the chief problem with which the Treasury is faced. The wages of the civil servants must be readjusted, possibly weekly. The prices of all the supplies which the Government must buy increase daily. The budget is constructed to cover a period of a year or some period of time, and in the course of a few days or a few weeks, inflation of the currency and the consequent increase in the cost of everything, creates an actual deficit constantly growing, which can never be covered by the actual value of taxes collected as distinguished from the values at which they were estimated. The Government resorts to further issues of paper money, the purchasing value of which constantly depreciates and consequently the amount of tax, so-called,



accruing to the Government out of the purchasing power of new issues of paper money is constantly decreasing and the condition of the budget as to the actual value of the revenues constantly becomes worse.

No scheme for progressive increases of taxation seems feasible nor indeed does it seem possible to create machinery which would be sufficiently efficient and fair in operation, by which progressive increases in tax payments could be nicely adjusted to the progressive depreciation in the purchasing power of the currency which is being inflated as fast as the Germany paper mark has been.

A great variety of suggestions are made from time to time as to the means for stopping this vicious circle of budget deficit and currency depreciation. Having in mind always, that change causes distress, those that are worthy of any consideration at all can probably be divided into five classes:

(1) Declaring the existing paper currency valueless and issuing a new one. The readjustments which would be imposed by any such course would probably be unupportable because of the distress which would result and in any event, under present conditions in Germany a repetition of the experience of the past could be expected to start anew unless more fundamental remedies were applied.

(2) Substantially the same thing in a different form is contained in the suggestion that from time to time a certain number of ciphers should be struck off the existing paper money. This alone would effect no real change so far as the fundamental difficulty is concerned and the comments under (1) would equally apply.

(3) The negotiation of a large foreign loan out of which the budget deficits for one or possibly two years could be met, thereby enabling tax collections to overtake currency depreciation and remove the budget deficit as a cause of further inflation. This was the proposal brought to this country two years ago by the Germans. It contains many elements of danger if undertaken as the sole remedy



for further depreciation and budget deficits. If it became effective at all it would probably be too effective, and might indeed bring on at once an automatic period of deflation of prices in Germany which would be calamitous to all who owned money and had contracts for the purchase of things. It would likewise require a sudden readjustment of wages which would be difficult to bring about. It would be only temporary, and probably foreign loans in sufficient amounts could not be had without other important reforms accomplished or pledged.

(4) The proposal to establish a new currency with various devices for limiting its issue and stabilizing its value, which might in the course of the long future be expected to supersede the present depreciated paper money. This indeed is what is attempted with the so-called rentenmark. The obvious danger here lies in the probable hoarding of any such currency in case its stabilization was successful; in fact its actual export abroad. It contains a further difficulty in the case of the rentenmark, as I understand that the issue is still subject to control by the State and is liable to be inflated by the State in order to meet budget deficits whenever the paper mark becomes no longer available or effective for that purpose. This is now imminent.

(5) The fifth proposal, and the one which it seems to me contains more hope of success than any of the others, is to combine the creation of a new and stable currency to circulate alongside of the present depreciated paper mark, supplemented by foreign loans the proceeds of which would be used only for the two purposes of balancing the budget and for the maintenance of a gold exchange standard directed solely to stabilizing the new currency. There are some obvious dangers in this proposal, the first and most likely one being that success in negotiating a foreign loan and in issuing and maintaining a new and stable currency might also result in too sudden an appreciation in the buying power of the paper mark. This situation would have to be met by a niceregulation of the degree of inflation of the paper mark still permitted during the period when the



Government budget was being balanced. The advantage of a dual currency, one maintained at a stable value by the gold exchange standard, and the existing debased paper currency, lies in the fact that it would afford a period of a year or two, or even three, during which a gradual balancing of the budget would gradually arrest the inflation of the paper mark, and would enable all classes of the German people to gradually readjust wages, prices and debts to an ultimately stabilized value between these two currencies and possibly at the end of a period of three years, through a reorganization of the Reichsbank, a readjustment of the old paper currency to a saner relation to a stable currency could be effected.

If, as seems to be the case at present, the existing paper mark has become valueless, it might be desirable as a part of the program of currency stabilization to restore some part of its value by striking off some ciphers so as to give it the mechanical facility which it has now lost.

But if any such plan as this is attempted, it would not command the confidence of the world nor would it possibly be capable of resisting the influence of the German Government and the vicissitudes of the next few years unless the absolute control and management of the stabilized currency were in the hands of disinterested parties.

There is an old axiom that a nation which has a persistent adverse balance of foreign payments can never have a stable currency, while a nation which has a favorable balance of foreign payments can have any kind of a currency that it wants. This is peculiarly applicable to Germany's situation because while the budget deficit, as in the past, has been an important cause for currency inflation, even a new and stable currency could not be expected to retain its stability and purchasing power or even to remain in circulation if Germany suffered a long period of persistent adverse trade balance and foreign payments, which would lay the foundation for a bank inflation at home just as budget deficits have done in the past. To fortify, therefore, the stability of any new currency,



it seems as though another element must be introduced into the German situation which at present is sadly lacking. The morale of the people must be built up, they must be encouraged to work by feeling that their work brings reward in a better standard of living and more comforts, and that can be brought about only by relief from excessive exactions in payments to be made abroad. The treatment of the currency and budget alone cannot be expected to be fruitful of permanent results unless it is accomplished by a wholesome revival of farming, industry and trade, and a gradual restoration of German exports and imports. These are the material things upon which any permanent improvement in the German situation must eventually rest and indeed without that improvement France can never expect to collect reparations. The French may indeed take private property in Germany, they may annex parts of Germany, they might even introduce all of the administrative machinery of government into Germany, but they could not expect to get payments from Germany until her people had sufficient hope and interest in the future and sufficient confidence in enjoying some of the fruits of their labor, and taking German property will never create any such outlook.

The work of the second committee, namely, locating foreign assets of German citizens, has struck me all along as an almost hopeless task.

In the first place, doubtless the reports of the amount hoarded abroad are exaggerated.

In the second place, exact information will always be difficult to obtain unless it can be obtained from abroad and that could not of course be arranged. Banks and custodians of property could not be forced to disclose such information.

In the third place, any real attempt to reach these balances and properties by force majeure would be quite likely to cause a further exodus of German property - and even of German citizens.

We must not forget that the only way in which a tax can be collected



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from a people is by making that tax a bearable tax, neither so burdensome in amount nor so exacting and inquisitorial in character as to make people rebel against payment.

The real way to get those balances - and in my opinion the only way to get them in large amount - is to perform such a capital operation upon Germany's monetary system and budget that it will revive confidence in currency stability and hope for its future improvement and so encourage German citizens to have confidence in the future of the country and to be willing to convert foreign currency and assets into German investments and property.

Were I in any way associated with this work, I think I would be governed by certain simple and absolutely fundamental considerations, which I would name in the following order:

(1) Avoid any radical change which would bring about a sudden change in the status of debts and level of prices.

(2) Create a new and stable currency to circulate alongside of the old one, and rely upon the manipulation of the old one to maintain a stable relation between the two, and upon a gold exchange standard to maintain the stability of the new one.

(3) Design any program along lines which would encourage the German people to work and develop their own business and trade.

(4) Rely upon the hope engendered in the German people by the reforms accomplished to encourage them to bring home foreign assets.

(5) Accomplish a balancing of the budget and a stabilization of the new currency by the service of a foreign loan, until domestic taxes do so.

Just how this is all to be done in detail is the problem with which you gentlemen are now confronted, and I wish you every success.

Yours sincerely,

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

Paris, France.



June 10, 1924.

Dear Logie:

Since returning I have been making weekly trips to Washington and have found it exceedingly difficult indeed to write you a decent letter, but I am taking the opportunity to send this by Basil, who sails Saturday.

You will be interested in the enclosed word picture of your many attainments.

I am enclosing for your very confidential perusal and then for destruction with this letter, a copy of a communication which I sent to Secretary Mellon a couple of weeks ago, which explains itself. This is along the line of our discussion in Paris. I sent a copy of it to Secretary Hughes and handed him myself the memorandum which Frazier prepared analyzing our position with regard to German claims. From what he said and has written me, I gather that he has been impressed by the importance of the arguments. After talking the situation over very fully with Owen Young, we had arranged a meeting with Hughes, Mellon and Hoover for last week, but Young was laid up with a cold, and now the Convention intervenes, so that the meeting is delayed until at least a week hence. Young agrees with me that we are facing the need for a national policy in regard to debts and monetary affairs, and he and I are hoping to put up a good stiff argument for something along that line. My personal impression is that all that can be done before fall must be in the nature of some private unofficial talks with the British as to the debts. Nothing of that character could be undertaken with any of the nations which have not funded their debts to us without, of course, having meetings of the Funding Commission, which will not be possible this summer after the adjournment of Congress.

I am sorry to say that there has been a little cold water thrown upon the prospective German loan. This I think is partly due to the delay and hesitation which appears to have arisen abroad which is attributed to election and politics, and partly to some rather natural misunderstanding of the true meaning of the plan. Mr. Young and I have been doing our best to make the provisions of the plan clear to some of the bankers, especially to the Morgans, but of course my own discussions have been academic and quite unofficial.

Probably you have learned that some very strong representations have been made to Secretary Hughes about your taking the Reparation Agent's job, and I am confidentially informed that Dawes has written an especially strong letter to Jusserand. Also I learn that the English have probably



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accepted the notion that an American will be necessary in that position. On the other hand, I have heard the view expressed that it is the key to the success of the plan as well as the insurance of the security for the loan, and on that account there may be a desire among the bankers to have some internationally known and outstanding figure, especially some one very well known in this country, appointed to the job. Crocker dropped in while I was dictating this letter and said he thought Young felt that the organization to put through the plan should be developed as a whole and not piece-meal, so that the selection of personnel might have regard to general questions of harmony and cooperation between the various elements in the organization. Just how this fits your own view I cannot say, but I should suppose that the very last decision to be made would be as to the Reparation Agent and that it could not be made until negotiations for the loan had made progress.

We have such an exceedingly mixed political situation here just now that I can see the possibility of a good deal of hesitation in tackling some of these knotty problems until after the national election, and of course if we should then have a democratic President, we might experience further delays. It was rather hard luck upon you and upon the Commission that there should have been a whole flock of elections coming along just as the plan was evolved.

The country is in a curious frame of mind. While I have not been in the West to hear how people talk there, my best opinion is that they are anxious to have a real leader who has definite views upon all these matters and who is not afraid either to state them or to work for their accomplishment, and this really is Coolidge's best chance because he seems to be that type of man.

From this point of view, therefore, it has seemed to me that irrespective of the election and of political conditions, the wisest move would be for this administration to make clear to the country what its policy was in regard to debts and general monetary reconstruction, and it is somewhat upon that hypothesis that Young and I will endeavor to get our own views as clearly as possible before Hughes, Mellon and Hoover.

We are entering upon a period of very great ease in money and some little business reaction, the latter probably exaggerated a bit by the press, but nevertheless definite enough to cause a feeling of conservatism and hesitation in making commitments.

Basil will elaborate upon the above and give you the benefit of a chat which we propose to have Friday afternoon before he sails.

My very best to you, old man, and success to all your efforts.

Faithfully yours,

Colonel James A. Logan, Jr.,  
7 Rue Monsieur,  
Paris, France.

BS.MM

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PERSONAL

June 30, 1924.

Dear Logie:

Thank you very much for your bully letter of June 12. I have read everything in it, including the enclosures, with intense interest. The reticence of some of your associates in Washington makes it difficult for me to judge whether the discussions I had with the Secretary on my return have produced much in the way of action in the matter of the German claims, but I certainly urged action along the line of our discussion and hope it is productive of some results.

Last Tuesday, Owen Young and I were in Washington and dined with Secretary Mellon. Secretaries Hughes and Hoover were there. Also Winston and Wadsworth of the Treasury. After dinner Young and I went to the mat on the subject of the policy respecting debts and monetary reconstruction, all of which you had heard discussed in Paris, and while I think we made some impression, I can't think so far that it will result in any immediate action. The delay seems to be that political difficulties in the way of debt adjustments along lines which will facilitate monetary reconstruction are for the moment insuperable, and that no real action can be possible until after our elections. On the other hand, they very clearly understand the perils of inflation with which this country will ultimately be confronted, - and all of that you will find laid out in a letter, copy of which Basil is taking to you.

The Democratic Convention here is having a regular monkey-parrot time. I doubt if there ever has been such a turbulent convention with so much bad blood. The Party seems to be hopelessly split on the Ku Klux Klan plank, in which the Irish Roman Catholic element - really Governor Smith's backers - made a gallant fight to have a definite condemnation by name of the Klan incorporated in the platform; but the Convention pussyfooted and by a majority of four votes turned down the proposal. Another very curious thing developed. Former Secretary of War Baker made an impassioned and eloquent plea for an 100 per cent. Wilsonian League of Nations plank as a substitute for the one proposed by the Resolutions Committee, which provides for a national referendum on the League question, with such reservations as the President and Senate may stipulate in case admission to the League is approved. Those who heard Baker's speech have told me that it was one of the finest orations made in this country in years and he literally swept the Convention with enthusiasm. This applied not only to the galleries but to the delegates themselves. When it came to the voting, however, there were "good men and true" who cast the votes turning down the Baker resolution by a vote of about two to one, leaving the Democratic platform as declaring for world cooperation but for a statutory referendum to the whole country to decide whether we should



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join the League or not. This is a ridiculous sidestepping of the real issue and probably by a method which is unconstitutional and certainly is contrary to the spirit of our Constitution and of any representative form of government. The consensus of opinion now is that neither McAdoo nor Smith can be nominated and the likeliest of the candidates whose names are already before the Convention are Ralston, Glass and Davis. There is still a possibility that nominations might be thrown open again and some very dark horse whose name has not yet been suggested at all be suggested as a compromise. It looks as though they will be here the better part of this week, and the balloting begins this morning, all of which will be decided by the time this letter reaches you.

One word about the Berlin job. The most discreet inquiries that I have been able to make indicate that a view is held in various quarters that a loan is going to be difficult to place here, but that it can be placed, and to overcome the difficulty as to the integrity of the security there is a definite consensus of view that the reparation agent should be some outstanding American well known both as a banker and business man and in a sense representative of the lenders. My belief is that the views of those who have got to raise the money will prevail, whatever they may be, so far as any move is made on this side, but that the decision will rest with the governments abroad where it really should rest. It is difficult for me to advise you what to do. On the whole, I am inclined to think that the banking view is most likely to prevail, and therefore a cheerful compliance is indicated. There seems little more that I can do on this side. I very much doubt the wisdom of your displaying any activity in your own behalf abroad, but you are a better judge of that than I am.

I am glad you like the things for the apartment. I wish I could be there with you to help you use them and wear them out. Will you tell Basil that I have discovered that the book preservation business which Emery established (of which I spoke to him) is being continued by some other people, that the work they do is very satisfactory, and I found they are going back to the original plan of having the house book preserved in its present form under transparent leaves and rebound. I hope it suits him.

My very best regards to you, old man, and the same to any of my friends whom you may see.

Yours sincerely,

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

BS.MM



PERSONAL AND CONFIDENTIAL

July 11, 1924.

Dear Logie:

I was so glad to have your letter of June 27, which makes so many things clear. Matters seem to be moving rapidly, and the fact that Young has been called abroad again in connection with the last stages of developing the plan is to me rather encouraging. Unfortunately, on account of my absence and his, I missed having a meeting with him before he sailed, but he left word that he would like to hear from me with any suggestion, and I have taken the liberty of sending him a cable as per enclosed copy. Just now I can only comment on two or three points in your letter.

First, it seems to me that the plan of having an American a member of the Reparation Commission may be open to some question, and I am wondering just what the explanation is and how it will work out. The newspaper comments and your own statement leave me a little confused as to just what is intended. As to the agent general, who I understand is to be the transfer agent, I had reservations myself in regard to Dwight, partly because of the association of his name with the "money interest," and partly because I have felt that the job required a person of a judicial temperament more than Dwight possesses. He is so enthusiastic and rather emotional that I wonder at times whether he has exactly the poise required for what is really a judicial position. But I am very fond of him and have a tremendous regard for his unusual ability.

Now my own explanation in that matter is this: The bankers who are to handle the loan here are certainly entitled to make a suggestion as to who will occupy that important post. I could not possibly oppose their selection, nor in fact would my influence amount to anything if I did. But I do feel that from the lenders point of view such an appointment would add a good deal to the strength of the bankers in offering the loan to the public, and I am frank to say that to have a person in a position to pass upon and make recommendations - or possibly even to decide what is or is not a material default by Germany - would also add to the strength of the loan in this country. The rather sharp swing to the left in England and France, of course, has got to be regarded, and whether they would resent the appointment of a Wall Street banker is a question on which your opinion is much superior to mine. As I advised Basil, it seems to me that the recommendation having been made - if it has been made - by our bankers, the real decision would now rest abroad, where it would be impossible for me to do anything beyond what I have done. I think Dwight would probably make a very good job of anything that he undertook, and his integrity and fair mindedness are so well known that the appointment would appeal to American investors. This in a rambling way is about what is going through my mind since receiving your letter.



July 11, 1924.

The fact must not be overlooked that the fate of the plan rests almost as much with the control which may be exercised by the Commissioner as it does with the skill displayed by the transfer agent. The German currency can be imperiled by bad general bank management, over extension of credit, etc., just as much as it can be imperiled by attempts to make transfers in excess of capacity; so that I am just as much interested in a way in seeing a good Commissioner as I am in seeing a good transfer agent.

I do hope that the meetings in London are not confused by a discussion of what might appear to be a controversy in the matter of dollars versus pounds. The fact is that there is no ground for controversy whatever. The German currency has got to be established on a gold basis which is a stable value and not on a sterling value which is a fluctuating value. On the other hand, no discrimination should be attempted against the London market or against sterling because in point of fact Germany must depend to a very considerable extent upon sterling credits to furnish the fluid capital which will be urgently required for the reconstruction of their industrial and commercial system and for the support of their banking generally. The answer to the whole controversy is that the British should promptly take steps to restore the pound to par and resume gold payments. That step again cannot be safely taken so long as the whole subject of inter-allied debts is left in state of uncertainty and remains a menace to the world's currencies. Therefore, the fate of sterling in a measure rests with us. If we are willing to develop progressively a policy of effecting definite adjustment of debts on the basis of capacity of the various nations to pay war debts and the British will join in such a program, it seems to me that the future of the pound will be assured. Without this debt adjustment I would consider it a hazardous undertaking for Great Britain to undertake to pay gold. The letter which I sent to you with my last, and what Young will tell you of our meeting in Washington will make clear just the way I feel about that, and somewhat the extent to which I have been discouraged by the attitude which our government has heretofore assumed.

I hope you have a most successful meeting in London.

With best regards to you and to Basil, I am,

Yours sincerely,

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

BS.MM  
enc.



JAMES A. LOGAN JR.

Paris, 3 May 1923.  
18 rue de Tilsitt.

Personal & Confidential.

My dear Ben:-

The present indications are that M. Poincare will reject the German Government's reparation settlement offer received by the various Governments late yesterday afternoon, May 2. The Germans must have known that the tone alone of the offer would make it unacceptable to M. Poincare. Our prima facie judgment is that the offer was largely drafted for internal German consumption and for its possible effects on public opinion in Great Britain and the United States. The offer, however, has the advantage of somewhat narrowing the field of debate and from this aspect serves as a stepping stone to the eventual solution.

The opposing sides in the German settlement question during the last two weeks have been continuing their debate in various speeches made by their representatives. In our last letter we gave extracts from M. Poincare's Dunkirk speech of April 15; the reply of the German Foreign Minister in the Reichstag on April 16; and the subsequent speeches of Herr Stresemann and Herr Mueller. In the presentation of the situation as it has developed to date it is believed to be of interest to give some extracts from later speeches made by the opposite-camps.

The speech of Dr. Breitscheid of the German United Socialist Party before the Reichstag on April 17 attracted special attention in France. In the course of this speech Dr. Breitscheid stated that:

"notwithstanding the divergence of views which exist between Herr von Rosenberg and us we demand that a definite offer of settlement be presented to the Entente. The Right accuses us of a desire to stab the Country in its back, but we must say here that the miners of the Ruhr who are on the firing line also demand that the Cabinet makes a positive offer. In addition, we are not tools of the present ministers, and we would be entirely willing to see our country governed by others. By prolonged resistance our situation will not be ameliorated. Our duty is to search for a rapid solution of the Ruhr adventure, and we say openly that the best path to such an end is an offer from our Government. Look at the situation of the Bank of the Empire; regard the scale of existing unemployment; also read the reports of the French situation today. You say



"that you wish an early settlement, therefore, we demand an early solution. We have hardly any friends left in the world, and neither England nor the United States will intervene. Unhappily, we are not able to consider the speech of Herr von Rosenberg as a proposal. In contradiction with his other declarations, Herr von Rosenberg has spoken of an inquiry into our capacity of payment through the medium of a committee of international experts. Such solution may well be more onerous to us than a direct offer. They say that France desires the complete destruction of Germany; I believe as a matter of fact that there are in France people who would prefer annexation to reparations; M. Poincare is one of them. I ignore him, but there are also French people who do not share such views. There exists a plan of reparations but not one of annexation of MM. Barthou and Delacroix which totals 35 or 36 billion gold marks payment after deduction of the British demands. I do not say that this plan is acceptable, but it is a definite one. Our ability to pay depends on the total figure of an international loan and we are ready to turn over immediately to France the larger portion of any such loan. On the other hand, we are ready to enter into a pact of peace for a long period of time and we are willing to accept the demilitarization of the Rhineland and Westphalia. We desire to arrive finally at an accord with France. This is the only key to European peace. Professor Hoetzsch has asked us if we are Germans. Being Germans it does not necessarily follow that we must be ultra-nationalistic, but that we must serve our country."

The speech of Lord Curzon in the House of Lords on April 20 attracted a great deal of attention in Europe. The proposal made in his speech that Germany should make a fresh offer was generally regarded as a certain evidence of Great Britain's departure from her previous attitude of detachment and neutrality in the Franco-German controversy. By pointing out the "great responsibility incurred if the opportunity is lost" it had much to do with forcing the Cuno Government to make the offer of settlement of May 2.

The Curzon invitation to the Germans coincided with the continued demands of certain groups of the German Socialists that the German Government should make a definite offer that would remove "the burdens of the occupation from the shoulders of the Ruhr workmen who are now standing on the firing line of the controversy". It appears that on April 21 German Union leaders went in deputation to Chancellor Cuno and Herr von Rosenberg. The official report stated that "the economic position was discussed". However, it is significant that the Socialist Democratic Parliamentary News Service---an agency likely to be well informed on the subject---stated the discussion took somewhat the following form:

"The representatives of the Trade Unions discussed both the internal and external situation with the Chancellor and the Foreign Ministers. The Trade Union leaders unanimously gave



"their opinion that passive resistance in the Ruhr must be continued until a successful conclusion is reached of the present conflict. At the same time the desire was expressed that the Government should leave nothing undone that would bring it nearer to the goal of its defensive action, namely, the liberation of the Ruhr from the French and Belgian troops. The Trade Union representatives further informed the Chancellor and Foreign Minister that they were in agreement with the Socialist Party; that the moment had come where the Government must make a definite offer to the Entente Powers."

The French attached great importance to the Breitscheid speech and the reported attitude of the Trade Union leaders. They assumed that all these indicated growing internal dissention within Germany which would eventually force the Cuno surrender. On the other hand, it would appear from the German offer of May 2 that Herr Cuno has drafted his offer in the endeavor to appease these very same German elements.

Considering the controversy as to whether Herr Bergmann actually offered or submitted a definite reparation settlement proposition at the time of the meeting of the Prime Ministers in Paris the first days of January, 1923, an official communique appeared in Germany "in reply to reports from French sources that Germany had had numerous occasions to present written propositions but that it had never made them". The German communique states:

"The French communique omits to say that the reply to our proposal of a conversation on the Franco-German economic collaboration stated the impossibility of direct or indirect negotiations with German industrials during the Anglo-French exchange of views on the reparation problem. The possibility of a written proposal has thereby entirely disappeared. After the closing of the Paris Conference such a proposition would have had no chance of success. Herr Bergmann had brought to Paris a written plan and he was charged to explain it orally. Furthermore, a plan completely elaborating our reparation offer, and which covered the problem as a whole, had been prepared at Berlin up to the 3rd, and not up to the 4th, of January. This plan was telegraphed to the German Ambassador in Paris and also to Herr Bergmann. Unfortunately, no opportunity was given either to the Ambassador or Herr Bergmann to present this plan either orally or in writing."

Both the German and French positions on this are disingenuous. The facts as confidentially told us at the time by Herr Bergmann are the following. Herr Bergmann came to Paris from Berlin a day or two before the meeting of the Prime Ministers carrying with him a definite reparation settlement offer. On page 5 of our letter of January 5, 1923, we gave an outline of this German offer as given to us by Herr Bergmann at the time. According to Herr Bergmann, it had been agreed before leaving Berlin that no mention was to be made of a "written" German offer, but he was to seek a hearing before the Prime Ministers where he was authorized to expose the German scheme verbally. Upon Herr Bergmann's ar-



rival in Paris he found press reports of a public speech of Herr Cuno made the day after his departure from Berlin, in which Herr Cuno presented practically the entire German scheme, and at the same time made a statement that "Herr Bergmann was the messenger carrying the formal German offer to Paris". Herr Bergmann at once telephoned Berlin suggesting that in view of the Cuno speech the German plan be officially communicated to the French Government through the medium of the German Ambassador in Paris, with request that it be formally considered by the Prime Ministers. The German Government followed this advice, and in fact the German Ambassador "offered" to present "a German plan" to the French Government. The French Government declined to receive the plan, ostensibly on the grounds that it was part of the manoeuvre of the German industrialists who for some days before had been pressing M. Poincare to give them a hearing on the "question of a general solution". M. Poincare had replied to the industrialists that "he would talk to them when he got to Essen, but not before". The French have made it appear in the press that the offer carried by Herr Bergmann and the request for a hearing by the German industrialists were part-and-parcel of the same German plan. On the other hand, we feel that the French at the time had full knowledge of the fact that these two approaches were separate and distinct, and that the German Ambassador had actually offered to submit a formal German Government proposal. It results from the foregoing that while in fact a German plan was "offered", it was nevertheless not "submitted". This is all somewhat ancient history but has a bearing of importance, for an examination of the German January 4 plan and the German May 2 offer shows that the May 2 offer is based almost entirely on the January 4 plan, although it does contain additional elaboration and details concerning the security phase.

M. Poincare on April 22 made an important speech at Void.

In this speech he underlined the words "Reparation and Security" as the sole French aims, not only in the Ruhr but in all French dealings with Germany. Though he made no mention of Lord Curzon's April 20 speech, it was undoubtedly in his mind as he gave historic, military and political reasons for the inexorable maintenance of the present French policy. He said:

"We went into the Ruhr because Germany was deliberately avoiding the terms of the Peace Treaty. Herr von Rosenberg now says that an offer to pay 30,000,000,000 gold marks was made to us in January, 1923. It is not true, and the whole story was invented as an afterthought.

"But even if it had been true, what would the offer have meant? Germany, after having promised us in May, 1921, to pay 132,000,000,000 gold marks so as not to see the Ruhr occupied would have offered the Allies less than a quarter of that sum two years later in order once more to buy off the menace that was impending.

"And in return for this gracious concession on her part, we would have to grant her a three or four years' moratorium without any guarantee whatsoever. How could we put any trust in a promise made in 1923 when the solemn engagement taken by Germany just 18 months before had been violated.

"When we entered the Ruhr we did so in a peaceable manner. We hoped that the mineowners and the workers would cooperate with us.



We met with violent opposition and with strikes on every hand, and we therefore had to set to work to see that our Treaty rights were not ignored."

German "activity in propagating falsehoods not only as to the origin of the war but as to the French behaviour in the Ruhr" next came in for scathing condemnation from M. Poincare. He reminded his hearers of "German crimes and brutality during the war", and referred to "the attitude of Bismarck after 1871", pointing out "how different has been the conduct of France and the Allies". M. Poincare then turned to German unwillingness to accept the disarmament clauses of the Treaty of Versailles.

"The German 'Schutzpolizei', as we know from the reports made by General Nollet and as we have found out in the Ruhr, have army discipline, army training, and an army staff. In the Ruhr we have found therefore under the false name of 'Schutzpolizei' regular troops officered and trained for war.

"Since the signing of the Peace Treaty we have shown nothing but patience and magnanimity. But it is foolish to talk of coming to an understanding with a country that has raised to the position of a doctrine the repudiation of signatures and the tearing up of treaties. The essential conditions of a rapprochement between France and Germany can be defined in two words and they will always be the same: 'Reparations and Security' ".

The very tone of the foregoing speech of M. Poincare, in which he rehearses so much of the old war-time Allied utterances, was unfortunate. It was given wide publicity in Germany and necessarily caused feeling serving to make the task of the conservative German desiring a settlement much more difficult.

With regard to the German settlement offer of May 2 the following official statement was issued May 3 by the French Government.

"The Council of Ministers which met this morning was unanimous in declaring that the German proposals are unacceptable, not only by reason of the conditions they contain and the absence of all guarantees, but also owing to the insufficiency of the figures offered.

"The Prime Minister will jointly with the Belgian Government decide on the terms of the reply to be sent to the German Government. This reply will be communicated to all the Allies."

The French hoped that a joint Franco-Belgian reply would be despatched today. However, there is difference of opinion between the Belgians and French as to the nature of the reply. From what we gather the French insist on a somewhat flat rejection, including some general statements of conditions but without a definite statement of any counter-demands, whereas the Belgians prefer that the reply be worded as to invite further negotiations by including a definite statement of the counter-demands. The French press have made some veiled reference to this difference of views, in certain instances having gone so far as to forecast separate and different replies being sent to Germany by the two Governments.



However, we have just been confidentially informed by the Belgian Delegation that agreement on a joint text will probably be reached tomorrow and the reply forwarded to both the German and Allied Governments on May 5.

On April 25 during a casual and personal chat with M. Loucheur he volunteered certain information concerning recent events which is of interest. A brief of this conversation has already been cabled to Washington. M. Loucheur first referred to his recent London visit which attracted so much attention in the press. He said that he had originally proposed his visiting London to MM. Millerand and Poincare and that the latter two "warmly supported his going for the purpose of sounding out British opinion and endeavoring to find some grounds for a better Franco-British understanding and joint support against Germany". M. Loucheur said that upon his return he was very much surprised to see an official communique from the Quai d'Orsay containing a positive denial of any Poincare connection with his visit. In view of his previous understanding with M. Poincare he was quite put out and called upon M. Poincare for an explanation. According to M. Loucheur, the explanation was that the communique was issued during the temporary absence of M. Poincare from Paris, and through an error on the part of the Under-Minister Peretti. M. Peretti had not been advised of the previous Poincare-Loucheur conversation and on his own initiative had issued the denial. M. Loucheur said M. Poincare apologized and invited him to be present at Dunkirk where M. Poincare publicly made amend by pointed reference "to the success of M. Loucheur's London visit".

M. Loucheur stated that he had been warmly received in London where he found an earnest desire on the part of all British officialdom to be helpful in the existing situation. The British had, however, laid particular emphasis on the necessity for some definite and formal joint Franco-Belgian agreement as to the minimum settlement acceptable to both. M. Loucheur intimated that the British had expressed the desire to see and pass on such plan before committing themselves to support the Franco-Belgians against Germany.

According to M. Loucheur, M. Poincare anxiously hoped that the Germans would submit a plan at the earliest possible date. M. Loucheur volunteered the information that M. Poincare would be willing to accept as a basis for discussion a German settlement offer following the general lines of the International Socialists' plan definitely fixing the reparation figure at from 30 to 35 billion gold marks.

M. Loucheur's idea of a plan of settlement which he said M. Poincare agreed to, and which he intimated would probably be supported by the British as a basis for joint conversation so far as the latter were concerned, was as follows:

- (a) The Allies to agree to definitely cancel reparation claims covered by A and B Reparation Bonds except the amount necessary to cover the reconstruction of the devastated areas, and so far as Great Britain was concerned, everything except an amount sufficient to meet the latter's debt payments to the United States.



(b) The bill on the foregoing account to be fixed at 40 billion gold marks including some other minor treaty charges, plus the amount of German payments to Great Britain on account of the service of the latter's debt to the United States. The 40 billions to be divided as follows:

France	32	billions
Belgium	4	"
Italy	2 1/2	"

the remaining 1 1/2 billion for settlement of the claims of the smaller Allies and to completely liquidate all other outstanding Treaty charges.

(c) As to Reparation C Bonds, all to be cancelled as constituting any technical reparation obligation, but the charge under C bonds to be maintained to cover all payments demanded on account of interallied debt settlements.

M. Loucheur stated that officials in London during his visit had intimated a willingness on the part of Great Britain to cancel her continental indebtedness on this basis and that therefore the only possible future charge on Germany on account of reparation C bonds would be the amount required by the other Allies to meet their indebtedness to the United States.

M. Loucheur went on to say that the proposed 40 billion reparation obligation would carry 5% interest plus 1% amortisation, Germany to meet the service of the revised reparation plan through deliveries in kind and thru cash raised by internal and external loans floated on the security of German industry, customs, monopolies and railways. M. Loucheur stated that he personally was opposed to demanding and enforcing participation in German industry for French and Belgian industrials. He said that this latter thesis was at the present time held by M. Poincare as a method of a prompt partial liquidation of the reparation debt. In M. Loucheur's view the forcing of participation in Germany's industry in ultimatums was entirely impracticable from its purely business angle and that the only workable scheme for attaining the desired goal of Franco-Belgian industrial participation in the Ruhr was through direct negotiations and arrangement between the Franco-Belgian and German industrials. In M. Loucheur's judgment, a plan for such direct negotiations could be formulated and effected on business lines which would not only guarantee sound future working premises but in addition would more directly help general German economy and finance in meeting German Government payments on account of reparations.

As to security and guarantees, M. Loucheur stated that the following were M. Poincare's views in which he concurred. Upon the acceptance by Germany of the new reparation plan and as payments are successively effected, the troops at present in occupation of the Ruhr would be gradually withdrawn. He stated, however, that as soon as the Germans had accepted the new terms the occupation would be technical rather than practical and that following any substantial cash payment such as "4 to 5 billion gold marks", France was prepar-



ed to reduce her forces in occupation of the right bank of the Rhine to "1 to 2 thousand soldiers and a few engineers in Essen". On the other hand, the occupation of the left bank of the Rhine to be continued under the terms of the Treaty of Versailles, the prescribed successive withdrawals being effected as provided for in the Treaty and as reparation payments were made under the foregoing plan. According to M. Loucheur, M. Poincare agreed to reduce the occupation troops to a minimum on the left as well as on the right bank of the Rhine at a very early date and that probably France would ask for no future payment on account of such army costs, provided Germany lived up to the terms of the new agreement and energetically started putting her financial house in order.

M. Loucheur expected a reasonably early settlement, and hoped that the United States, after such adjustment of Franco-Belgian and German differences, would actively participate and help in the all-important financial and economic reconstruction period which would follow.

As to settlement of France's debt to America, M. Loucheur volunteered the statement that it was the duty of France to liquidate this bill provided the United States considered it in its interest to collect. He pointed out the difficulties of the French financial situation and its relations to the payment. He said he hoped the United States would agree to forego the demand for interest on account of the French debt and that agreement would be reached for the payment of the capital sums annually, and on a gradually increasing scale, over a period of 40 to 50 years.

M. Loucheur is a pretty adaptable fellow, and apt to change his mind. We have no other confirmation than his own that his portrayal of the views at present held by M. Poincare are accurate. In addition, M. Loucheur has every ambition to succeed M. Poincare as Prime Minister of France and therefore, while the views as stated are of interest, they must be accepted with considerable reserve.

On Page 5 of this letter we referred to certain differences of opinion between the French and Belgians as to the terms of the reply to be sent in response to the German offer of May 2. In our letter of April 19 we referred to a Committee of Experts including M. Barthou and M. Delacroix created at the meeting of Premiers Poincare and Theunis in Paris, April 14. It will be remembered that this Committee of Experts "was charged with studying the various schemes for settlement already put forward and to formulate a common plan".

In personal conversation with M. Delacroix on May 1, he confidentially informed us of certain difficulties he was encountering in working out "the common plan". Franco-Belgian junior assistants had been working on this for two weeks and while they had made some progress, any definite conclusions were delayed due to a ten-day vacation which M. Barthou had taken. He said that he and M. Barthou had never had a meeting on this subject and that, while he had insisted, M. Barthou had been putting him off. On May 1 he went to M. Barthou's office and insisted on a meeting forthwith. M. Barthou had replied that he had gone that morning to see M. Poincare to ask for instructions and that M. Poincare had replied that he had "none to give him", and M.



Barthou declined to join with M. Delacroix in formulating a "common plan" until he had received M. Poincare's instructions. M. Delacroix maintained that this attitude of M. Poincare's was a breach of the understanding reached April 14 between MM. Poincare and Theunis. He said that he had telephoned to M. Theunis about the matter that day, that the latter was angry and had asked M. Delacroix to come at once to Brussels for consultation. We have no further information on this subject, but we feel that this situation has had no little to do with the Franco-Belgian difference of opinion as to the terms of reply to the German offer of May 2.

Faithfully yours,

*Jan A. L. Jr.*

JAL/AJG

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



JAMES A. LOGAN JR.

Paris, 11 May 1923.  
18 rue de Tilsitt.

Personal & Confidential.

My dear Ben:-

We enclose the Reparation Commission's official copy of the German note of May 2 (Exhibit A) which was addressed by Germany to the United States, Belgium, France, Great Britain, Italy and Japan, together with the translation of the Franco-Belgian reply (Exhibit B) of May 6 in which France and Belgium "refused such a bargain" as presented in the German May 2 note.

On May 8 Lord Curzon, in the British House of Lords, and Mr. Baldwin, the Chancellor of the Exchequer, in the British House of Commons, made the following identical statements:

"The German note, which has already appeared in the Press, was handed by the German Ambassador to the Foreign Secretary on the afternoon of May 2. It was a note addressed not merely to the French and Belgian Governments, but to the principal Allied Powers.

"As such it was the view of his Majesty's Government that the best and most natural course of procedure would be to return a concerted reply from the Governments of Great Britain, France, Italy and Belgium---the more so as the German note was in response to a suggestion which had been made to them publicly and officially by the Foreign Minister of the British Government, and as the problem involved, viz., that of Reparations, is one in which the Allied Powers, and not France and Belgium alone, are deeply concerned.

"Nor, in the opinion of his Majesty's Government, need any insuperable difficulty have been experienced in drawing up a collective reply, reserving for separate treatment by the French and Belgian Governments, if they so desired, the questions arising directly out of the recent occupation of German territory by their military forces.

"His Majesty's Government had reason to believe that these views were shared by some of their Allies, and they were quite prepared to make proposals to this effect, having already communicated their general idea to the Allied Governments, when they were officially informed that the French and Belgian Governments had already drawn up a joint reply from themselves alone, the text of which was communicated to His Majesty's Government on Saturday after-



"noon, with the intimation that it would be presented twenty-four hours later to the German Ambassadors at Paris and Brussels.

"His Majesty's Government regretted what appeared to them to be the unnecessary precipitancy of this step, as well as the loss of the opportunity, which in their opinion had been presented, of once more testifying by a joint communication to the solidarity of the Allied entente.

"They do not, however, feel dispensed from the obligation of stating their own views in reply to the German note, and this they propose, with the least possible delay, to do. There is reason to believe that the Italian Government, whose attitude is in general accord with that of his Majesty's Government, contemplate a similar procedure. As soon as the British reply has been communicated to the German Government it will be published."

These declarations of the British Government received the general assent of all parties in the British Parliament. There appeared little evidence of dissent from any quarter, and the expressions of approval were manifest when the British Government made references to the "unnecessary precipitancy" of the French reply, declared the intention "to state their own views", and that "the Italian Government was in general accord with the British" and would likewise state their views. The tone of the statement, without being sharp, is manifestly designed to convey the impression that the British Government consider that the French Government had behaved in a manner which could not be justified, especially as the German note had been issued in response to a public speech by Lord Curzon and dealt with the question of reparations--a participation in which the British have a share. Up to this writing, no indication has been given out as to the line which the British Government will take in making their own reply to Germany. It is reported that the British statement has already been transmitted to the French and Belgian Governments, and that it will be issued within the next twenty-four hours. The statements in the British Parliament were largely concerned with setting forth and maintaining the British view that the German note ought to have received "a concerted reply" which would have testified to the solidarity of the Allies.

The French have been concerned regarding the change of the British attitude since the first Lord Curzon speech in the British House of Lords on April 20, in which he pointed out to Germany "the great responsibility the latter incurred if the opportunity of making an immediate offer was neglected". The French are particularly disturbed by the Curzon-Baldwin statement in Parliament on May 8, carrying with it the indication of direct Italian support to the British thesis. The French await with anxiety the formal text of the British and Italian replies to Germany. Much depends, of course, on the precise terms which will be employed in the British and Italian notes. In the meantime practically all the French are loudly proclaiming the justice and equity of their position vis-a-vis Germany. However, there is a feeling that the British and Italian replies to Germany will be distasteful, and that France, for political reasons, must take up the firmest possi-



ble position adverse from anything in the nature of British arbitration. However, France can not take exception to the forecasted intimation from Great Britain that Germany must reflect seriously on the consequences of an obstinate refusal to make an acceptable offer. Insofar as Great Britain pushes Germany in this direction it is felt certain France will not complain.

The general view in France is that no further German reply can be expected for some time. It is felt there is so much evidence of conflict between the various German political parties resulting in compromise, that it is impossible to look for any immediate reconciliation of conflicting German views. It is thought that Germany will flounder about for some weeks more before the political parties there can bring themselves to make a concerted and genuine offer. This French pessimism is apparently shared by M. Poincare, who has just declared that "France has only to bide her time and the collapse of Germany with her complete capitulation is inevitable, and that France has already laid down the only lines on which he will consider such proposals seriously". There is a feeling that the British note when issued will unintentionally encourage Germany to hold out for better terms. The French view is that the greatest difficulty for Great Britain will be to induce Germany to take proper steps to end the present situation without giving the impression that Lord Curzon is in any way on the German side and without rousing German hopes that prolonged resistance or conditional surrender will provoke British action as against French demands. We feel that for the present at least France means to go to the bitter end if necessary, and perhaps as a preliminary to all conversations with Germany to have some definite assurance that she will receive at least 26 billion gold marks on account of her devastated areas; also that resistance in the Ruhr must cease and some definite and satisfactory provision for future security assured. There are, however, signs that the French Government is seriously disturbed by the indications of British and Italian rapprochement, and with the consequent prospects of isolation on the Continent. The foregoing, in brief, in our judgment, sums up the present situation as it appears on the surface.

In our last letters we referred at some length to certain differences of opinion between the French and Belgians as to drawing up a "common plan" for the Franco-Belgian reparation claim. In these letters we referred to a Committee of Experts, including MM. Barthou and Delacroix, created at the meeting of the Premiers Poincare and Theunis in Paris on April 14, "charged with studying the various schemes for settlement already put forward and to formulate a common plan". We referred in this connection to information we had received from M. Delacroix of his inability to get M. Barthou to actually meet with him to consider this question; his having reported this state of affairs to M. Theunis; and the latter's annoyance and subsequent calling of M. Delacroix to Brussels for conference. M. Delacroix went to Brussels on May 3, just after the receipt of the German offer of May 2 by the French and Belgian Governments, and remained in Brussels until after the joint Franco-Belgian reply of May 6 was transmitted to Germany. He tells us confidentially that there was some difference of opinion between M. Theunis and M. Poincare as to the nature of the reply. According to M. Delacroix, the British were active in Brussels and had given every indication of their willingness to join in the Franco-Belgian reply to Germany, and that M. Theunis was for bringing them in. The British, according to M. Delacroix, would have been willing to have gone with the French and



Belgians on practically all points except the continued occupation of the Ruhr. Even in this particular, according to M. Delacroix, they were willing, with certain reserves and without British responsibility, to have the Belgians and French annex to the joint note their own demands in this particular. However, M. Poincare was obstinate and fearful of the possibilities of "British arbitration". M. Poincare, who has M. Theunis in "the cart which he drives", ultimately forced M. Theunis' hand and, notwithstanding the preceding Belgian-British conversation, had him join in signing the Franco-Belgian reply of May 6, which the British now term as "unnecessarily precipitate". M. Delacroix, in private conversation with us, was out-spoken in his condemnation of M. Poincare. He said he was a good deal disheartened by the present position, as he could see no immediate chance of M. Poincare assuming a more sane line of action. He maintained that the larger percentage of the French Parliament was opposed to M. Poincare, but afraid to come out in the open in view of M. Poincare's support by the "misguided French public". (In this connection it is interesting to refer to the fact that on May 9, the day after the Baldwin-Curzon statement in the British Parliament, M. Poincare received in the French Parliament the largest vote of confidence he has so far recorded) M. Delacroix finally concluded by saying that he had practically given up all hope of being able to meet with M. Barthou and establish any "common plan" of Franco-Belgian demands on Germany. He said the only hope of forcing such "common plan" was for the German Government to have sense enough to come out and say to M. Poincare: "What is your settlement plan, and what does it carry with it?" In his judgment, a demand on somewhat the foregoing lines might force M. Poincare out into the open.

The foregoing gives the history of the situation as we see it to date. There is a story that a much more favorable German offer than that of May 2 had been formulated by the Cuno Government. The story is that it was discarded and the May 2 one hastily adopted within a few days before presentation owing to receipt in Berlin of a newspaper report that "Poincare demanded and would only accept an unconditional surrender". We do not know if this report is accurate. The whole situation appears today to "boil down" to the regretful basis that "any offer advanced by Germany must be rejected by France", and that "Poincare's own internal position makes it impossible for him to permit any sane or reasonable demand until German resistance is completely broken". The faint hope of any early settlement appears now to rest in the forecasted British-Italian endeavor "to hold the door open for further Franco-German negotiations---or German joint Allied negotiations".

Faithfully yours,

*James A. L. Jr.*

JAL/AJG

Encls.2.

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



JAMES A. LOGAN JR.

Paris, 31 May 1923.  
18 rue de Tilsitt.

Personal & Confidential.

My dear Ben:-

We enclose as Exhibit A Reparation Commission Annex No. 1834, giving the text of the Franco-Belgian May 6, 1923, the British and Italian May 13, 1923, and the Japanese May 15, 1923, replies to the German proposals of May 2, 1923. Our views concerning these various replies were covered by Mr. Boyden's letter of May 13, 1923.

The interesting recent development in the situation is the growing lack of harmony between Belgium and France as to the solution of the German problem. We have referred in past letters to the Barthou-Delacroix Committee of Experts set up by MM. Poincare and Theunis at their meeting in Paris on April 14, 1923, charged with drawing up a "common Franco-Belgian plan". To date no progress whatsoever has been made in reaching such a "common plan", due to the dilatory tactics of the French. Yesterday, M. Delacroix informed us confidentially that he had been charged by M. Theunis recently to make a personal appeal to M. Poincare to obtain the latter's consent to M. Barthou and his forthwith commencing this work. M. Delacroix said he talked with M. Poincare for over two hours and that the latter maintained that with the Treaty and the Schedule of Payments there was no purpose whatsoever in drafting any "common plan", and that "the only line of action was to await the time when the Germans themselves, under the Franco-Belgian pressure in the Ruhr, would volunteer to carry out the obligations as expressed in the Treaty and the Schedule of Payments". M. Delacroix left us with the impression that M. Poincare's present purpose was to insist that France receive her full 52% of the amount due under the Schedule of Payments, and that any reduction in the total of the Schedule of Payments would have to be borne by British and Italian sacrifices in their participate shares, and that any surrender by France of her share in C Bonds would depend entirely on the extent of the cancellation of France's debts to Great Britain and the United States. M. Poincare demands 52% of 50 billion gold marks represented by A and B Bonds, or 26 billion gold marks, plus 6 billion gold marks which, according to M. Poincare, would still remain due to France as an outstanding balance of France's participate share in C Bonds, even after crediting complete cancellation of France's debts. Therefore, M. Poincare's present demand is the complete cancellation of France's foreign war debts, plus a 32 billion gold mark payment by Germany. How M. Poincare arrived at the figure of 6 billion gold marks as being the outstanding credit to France after crediting cancellation of the debts, we are unable to determine as the theoretical reparation obligations of Austria and Hungary which are included in the German C Bond obligation have never been fixed.



M. Delacroix said he was pretty well discouraged by the present situation. He said that the Belgian financial position was not so favorable as France's for the continuance of the relatively long process of forcing Germany to a complete surrender such as apparently demanded by M. Poincare. He said that there was much restlessness in Belgian business and financial circles, and that in addition the Belgians were much concerned on account of the recent Bolshevist, or perhaps better, the extreme socialistic tendencies of the German population in the Ruhr, as evidenced by the disorders of the last few days. The Belgians, according to M. Delacroix, were fearful of possible repercussions of such disturbances within Belgium itself. According to M. Delacroix, there is a rapidly growing discontent amongst the people at large in Europe with the delay of the present Bourgeois Governments of Europe in reaching a settlement of the Great War, and that the socialistic elements are taking advantage of this to capitalize their own positions. He said this was particularly noted in Belgium, and that some solution must be reached---and reached quickly. On the other hand, he said that "so long as a man like M. Poincare remains in power in France a solution is impossible", and that, therefore, he was forced to feel that the present situation would continue, growing gradually worse and worse until "that happy day when M. Poincare would fall"; when a constructive policy could be adopted.

Even in Paris, the troubles in the Ruhr are being closely followed by the press, not only because they may have a decisive influence on the problem of reparations, but also because they may eventually necessitate sending fresh French troops to the Ruhr, although the occupying army is not regarded as in any danger at present. A particularly awkward situation would be created were France obliged to send reinforcements. All French have in mind the possibilities entailed were it necessary to call additional military classes to the colors. There is anxiety in France over the possibility of collapse in the Ruhr. Although the whole responsibility is put on the German Government, the general feeling is that in some manner or other France and Belgium may be drawn into the incident disorders. Even as conservative a paper as the "Echo de Paris" stated recently "that the governments of Paris and Brussels must be ready to take charge of the German territory in which their soldiers are garrisoned".

The Belgian Government have been very insistent that a meeting be held between M. Theunis and M. Poincare to discuss the attitude to be taken upon the receipt of the new German proposal forecasted to reach these Governments within the next week or two. It was first proposed by M. Theunis that he come to Paris for this conversation on May 28 and discuss with M. Poincare not only the policy to be adopted on the receipt of the new German offer, but also to hasten the preparation of the "common Franco-Belgian plan" by the Barthou-Delacroix Committee. To this proposed visit, M. Poincare gave an evasive answer, saying that it would not be possible for him to meet M. Theunis at the time indicated "as he would be forced to be away from Paris with the President of the Republic at Strasbourg during most of the present week". He, however, promised to go himself to Brussels to discuss these questions with M. Theunis at a later, but not definitely fixed, date. A good deal of this controversy leaked into the press, which resulted in semi-official French Government announcements to the effect that "the Poincare-Theunis meeting would be held in Brussels the week beginning June 4";



then later, "perhaps it would not be possible to have the meeting at Brussels before June 15". According to M. Delacroix, these M. Poincare delaying tactics annoyed M. Theunis, with the result that he wrote M. Poincare a rather stiff letter to which he attached a proposed Belgian reparation settlement plan. We understand that the Theunis letter concluded with a paragraph to the effect that "Belgium followed France in the Ruhr venture on account of important political considerations. However, Belgium does not propose to continue following France in any foolish or disastrous policy". M. Theunis' note resulted in definite agreement on the part of M. Poincare to go to Brussels on Wednesday, June 6.

While we have not the full details of the Belgian plan enclosed in the Theunis note to M. Poincare, we have been informed that its general lines are as follows. The note does not in itself constitute a plan; it is rather a skeleton of a plan which Belgium hopes will be adopted. The basis of the Belgian plan is the "commercialization" of the German debt. It is assumed that the Allies are bound to look outside Germany for the sources of payments. It admits large loans are out of the question, but that small loans are possible, and one of the main points made is that real money could be raised by exploiting German monopolies. This would, first of all, imply the stabilization of the mark, for otherwise the receipts would be in paper marks of declining value. It insists that not only must there be a general agreement on both sides and amongst the Allies as to the desirability of a method, but before it could be made effective, the financial restoration of Germany is essential. It appears that there is considerable difference between the Belgian conception of the Ruhr occupation and that which prevails in certain quarters of French opinion: The Belgians regard the occupation of the Ruhr purely as a means of pressure on Germany, and have no illusions that the Allies could pay themselves out of the Ruhr. It is not in the Ruhr, rich as it is, but over the whole extent of German territory that monopolies should be worked on behalf of reparation claims under the Belgian thesis, and this obviously requires agreement with Germany. With regard to German railways, the Belgian thesis is that in spite of the deficits, it was held that the German industrialists when recently endeavoring to take them over estimated that they might yield, under proper conditions, an annual contribution of 1 billion gold marks. The Belgians point out that to date there are practically no taxes on sugar, which if administered as a monopoly would give handsome benefits. The Belgians also maintain that handsome profits would accrue through the organization of tobacco and alcohol monopolies. They maintain that so far as these latter commodities are concerned, the present indirect tax borne by the German consumer is less heavy than in any of the Allied countries, and that by a slight augmentation of prices not only would the German budget receive its present share but substantial additional sums would be made forthcoming under the monopoly scheme to meet reparation payments.

It can well be argued that in endeavoring to obtain money in this way the Allies would be defeating their own purposes since they would deny to the German Government sums which otherwise would be devoted to budgetary purposes, and as the balancing of the budget and the stabilization of the mark are essential preliminary conditions of effective receipts to the Allies, it would be fatal to deprive Germany of this revenue. Those who hold such



views point to the danger of this scheme simply creating a vicious circle. The Belgians, however, reply by pointing out that during the early period of last year when the budget was balanced, there was little reliance on receipts from these sources -- less than 225 million gold marks being the total budgetary receipts on this account. Under the Belgian plan, a number of international Consortiums would be created for the sale and exploitation of the various monopolies and the profits to the Allies would be substantial. The Belgians claim that nearly two billion gold marks could be raised each year on profits while another half billion could be obtained from deliveries of coal. The Belgians offer counter-suggestions that there should be participation by the Allies to the extent of 25% in German industrial concerns.

Sir John Bradbury, with whom we have been talking, expressed much the same opinion as to the views held by M. Poincare as those expressed to us by M. Delacroix (see first page this letter). Naturally, in our conversation with Sir John Bradbury we made no mention of the Delacroix conversation. Sir John maintained that the British Government could not accept the complete sacrifice of both European debts and participation in future reparation payments "which M. Poincare was endeavoring to force down the British throat as a preliminary to any sane settlement of the outstanding problem". He maintained that the British must with one or other of the resources mentioned obtain cover for the payments to be made to America under the Anglo-American debt settlement plan. He felt that very little in a constructive way was possible of accomplishment until the fall of M. Poincare, and was far from sanguine that the forecasted German proposal would serve as much of a stepping stone in the direction of a final solution. So far as the Belgian plan was concerned, Sir John Bradbury while pleased by its showing some divergence of views between Belgium and France was nevertheless critical of its workability under the operations of the broader economic laws, pointing out that there was "only one hatch of the German ship" through which the reparation payments could be drawn out, and that the amount to be taken through such "hatch", particularly so far as gold payments were concerned, was limited by the simple formula of the active financial balance of Germany measured by the gold value of exports plus the invisible balance less the gold value of importations.

M. Delacroix, in a subsequent conversation to that already quoted, informed us that M. Theunis proposed upon receipt of the forecasted German proposal to insist with the French upon the collaboration of both the British and Italians with the French and Belgians in the reply to be made to the German Government. If the German proposal gave any possible basis for a meeting around "a green table" M. Delacroix maintained that M. Theunis would force the meeting. He said that M. Theunis, if not in agreement with the French as to the terms of the reply, might possibly join with the British and Italians in their reply to Germany and thus completely isolate M. Poincare. We, however, question whether M. Theunis, notwithstanding his desire, can on account of the present political situation break away definitely from the French.

An important statement was issued from the Quai d'Orsay yesterday, May 30, to the effect "that France, in undertaking the Ruhr opera-



tion, did not intend, and does not intend, to take the general question of reparations out of the hands of the Allies. That it was obviously impossible to make the reparation problem a purely French problem simply because France had adopted separate measures". This statement has a certain significance in view of M. Theunis' position, as outlined above.

However, there is no evidence as yet of any real weakening in the French position. The vote of confidence accorded M. Poincare in the French Chamber yesterday, although as expected, was so overwhelming as to make it clear that the decision of the Senate last week regarding the Communist trial was in no way intended as a vote against M. Poincare's Ruhr policy. Nobody, except the Socialists and Communists, voted against M. Poincare, and even M. Tardieu, though attacking M. Poincare and arguing for sterner measures against Germany and criticising the past action of M. Poincare, wound up by casting his vote for M. Poincare. The French Chamber is therefore for the moment virtually unanimous on the main question. It would, therefore, appear impossible for any Government at this moment to abandon or modify the Poincare policy, except possibly to strengthen it. The majority of over 400 is a pretty plain indication of the essential unity of France concerning the Ruhr issue, and in our judgment, all suggestions of weakening of purpose in France may for the moment be dismissed as vain. We know that there are many really moderate tendencies in the Government, but for the present it would be no easy task to convince the Chamber that concessions will eventually have to be made. M. Poincare is always tempted to intransigence in the handling of the situation, for this wins public applaud. The desire for a reasonable arrangement, based on economic possibilities, is felt from many quarters, but as yet this voice is inarticulate, and not a popular card for any French politician to play. On the other hand, it will be noted from the Tardieu attack on M. Poincare in the Chamber that the allegation that M. Poincare has shown some feebleness was rejected--as a matter of fact M. Poincare's position was materially strengthened. M. Poincare may thus be able to make acceptable to the Chamber any agreement with the Allies and with Germany that he thinks fit when the time comes.

During a recent meeting of the French Chamber the Government's demands for supplementary credits on account of the Ruhr occupation were as follows: 47,500,000 francs for the cost of occupation during the month of June. Of this sum 12,000,000 francs is for the railway administration and 35,500,000 francs is for military expenses. Of the latter amount 12,000,000 francs is deducted in respect of the saving of the cost of keeping the troops in barracks in France. The credit for June is thus placed at 35,300,000 francs, bringing the total French Government's budgetary cost of the occupation of the Ruhr during the first six months of the year to 287,000,000 francs. Needless to say, this figure does not represent in any way the total cost to France of the Ruhr occupation to date. The total cost of this occupation to general French economy to date, as shown by our letter of March 9, 1923, must be upwards of two billion francs.

On May 25 M. Poincare in a speech in the French Chamber made the statement that "since the 25th of March the daily amount of coke taken by the French and Belgians from the Ruhr has passed from daily amounts of



1,000 to 8,000, 9,000, 10,000, and even 11,000 tons. As for coal, we are today taking out 11,000 tons per day, which we shortly hope to increase to 15,000 tons. The actual stocks of coal at present at pitheads and therefore seizeable amount to 2,500,000 tons; this entirely outside of production. Therefore, we are in a position to take at least 10,000 tons per day for a long period of time from the existing pitheads stocks, and this notwithstanding the efforts of the German Government to prevent production".

Faithfully yours,

*Jan a. L. Jr.*

JAL/AJG

Encls.1.

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



JAMES A. LOGAN JR.

Paris, 18 rue de Tilsitt.  
8 June, 1923.

Personal & Confidential

My dear Ben,

In my last letter I referred to the growing lack of harmony between Belgium and French as to the solution of the German problem and the desire of the Belgians to bring the British and Italian Governments back into the negotiations on an equal footing with the French and themselves. The new British Government has given some indications of its desire to join with the French and Belgians on any sane policy that might be adopted. In this connection it is interesting to refer to the following "Message to France" from Mr. Baldwin which appeared in the "Petit Parisien" on June 4:

"You will readily understand that I cannot indicate at the present stage what particular solutions would, in my mind, allow us to do away with the main problems on which your country and mine have got to agree. I hope to find some early opportunity to discuss these matters with our French colleagues. In the meantime I wish to point out one or two things.

"In the first place, I feel confident that, however difficult the reparations problem may be, or any of those connected with the occupation of the Ruhr, there is not one on which a common ground cannot be found for England and France to meet and adjust their policies.

"In the second place, I want the French public to know that we here are equally alive to the importance of the problem of Franco-Belgian safety and that we are anxious to help in framing a settlement which will ensure European peace in the future.

I am personally inclined to believe that very few things are impossible, provided one has a clear view of the difficulties and the will to settle them. I was fortunate enough to succeed last winter in settling the delicate question of the Anglo-American debt. Provided we take up the European outstanding questions in the same spirit I do not see why we should not settle them too. At any rate you may be certain that I shall personally work for that end with determination. We may meet with some temporary setbacks at first, but I feel sure that in the end we shall succeed".



The much heralded meeting of MM. Poincaré and Theunis took place in Brussels on June 6. At the conclusion of this meeting the same evening the following communiqué was issued:

"The Belgian and French Governments continued today the joint study of the various questions raised by the occupation of the Ruhr.

"They have maintained integrally all their previous decisions, notably as regards the conditions under which the evacuation of the Ruhr will be effected after the payment of reparations and as regards the obligation resting upon Germany to put an end to passive resistance before any examination of their proposals.

"The two Governments have settled the program of the new measures to be taken to accentuate the pressure and to constrain Germany speedily to carry out her obligations".

The foregoing communiqué gives no real indication of the significance of the Brussels meeting. The meeting was far from harmonious and while M. Poincaré actually forced M. Theunis to accept his thesis the impression was clearly left that there was a distinct divergence of views in the respective attitude of France and Belgium to the occupation of the Ruhr. In general Belgian opinion is not opposed to the occupation of the Ruhr, but it is far from enthusiastic and is growing anxious. The financial and economic effects of the occupation are more keenly felt in Belgium than in France. Belgium is fearful that if the present policy is long continued disorders in Germany are bound to occur which will commit Belgium to send more troops. Belgium is short of workers today---wants peace and business, and therefore does not want to be forced to call men away from work and put them with the colors. As explained in a previous letter there are considerable misgivings in Belgium as to how long the Belgian financial and economic position will stand the strain and cost of the present policy. The temper in France, at least on the outside, is very different. There are those in France who are very anxious as to the immediate future, but it is surprising to see how generally French opinion favors the keeping of a strong hold over Germany in the Ruhr. The general feeling in France is one of relief, perhaps even of happiness that in these periods of uncertainty some definite line of action has been adopted, and that France by taking the initiative is no longer therefore at the mercy of some mysterious and indefinite force. In our judgment, so long as this feeling lasts it is difficult to expect any great change in French policy. M. Poincaré having adopted the rigid policy, and the policy that "We can wait", and this having been accepted by French opinion, it is difficult to change. On the other hand, the Belgians who are a commercial people, and who lack the French patriotic national emotions, always want to look ahead and study the possibilities, make plans, etc., so as to be prepared for the future.

M. Delacroix, with whom we were talking yesterday, stated that at the Brussels conversations of June 6 nothing whatsoever was accomplished. M. Theunis wanted to continue them the next day, but M. Poincaré was firm, and the meeting ended within a few hours. There was no agreement reached as to



whether any effort should be made on the part of the French and Belgians to have Great Britain and Italy join in the joint reply to the forecasted German offer which was actually received by the various Governments the afternoon of June 7.

The evening before the Brussels conversation the following obviously inspired Quai d'Orsay statement appeared in the French press:

"First, it must be understood that no German offer can be taken into consideration until the German Government agrees to bring the passive resistance in the Ruhr to an end.

Secondly, the Ruhr cannot be evacuated immediately, but only as the German payments are effected.

Thirdly, the French minimum demand at the present time is twenty-six milliard gold marks, free of all deductions on account of Inter-Allied debts.

Fourthly, if Great Britain and America do not forego their credits on France or forego only a part of those credits, then France demands, in addition to her twenty-six milliards, such sums as are necessary to meet the British and American claims.

Fifthly, since France has made up her mind about her own needs and does not approach the problem from the angle of Germany's so-called capacity of payment, it is entirely useless to propose any arbitration, especially the arbitration of an International Commission.

Sixthly, with regard to the methods of payment, France will be ready, after the capitulation of Germany, to agree to any reasonable suggestion. But in accepting a suggestion France will not necessarily bear the loss should particular means of payment prove to be a failure.

Seventhly, in the Ruhr itself, and in the other occupied regions, there must be an Allied exploitation which will guarantee and provide at least a part of the Allied demands".

The foregoing coming out as it did just before the Brussels conversation indicated that there was little hope of any real accomplishment at Brussels. M. Delacroix tells us that the only concession admitted by M. Poincaré to M. Theunis was the permission for M. Theunis to confidentially transmit a copy of the Belgian plan (see page 3, my letter May 31), previously submitted to M. Poincaré, to the British Government for its information. Sir John Bradbury, with whom we subsequently spoke on this subject, said that even this concession might be embarrassing to the British as the Belgian plan in his judgment "was so full of holes" that the British Government for political reasons, would not care to actually pass on the plan but would simply acknowledge its receipt and refrain from being drawn into any discussion of its merits at this time.

Concerning the new German offer received by the various Governments on June 7, we have not yet seen the full text and therefore refrain from comments on it in this letter. The French press this morning is generally critical of



its contents: M. Poincaré's papers openly forecasting rejection of the plan by M. Poincaré, on the general grounds of its being insufficient, and on the specific grounds that it does not carry with it the obligation to forthwith cease "passive resistance".

The French have been laying the greatest possible stress on their thesis of complete capitulation by Germany. Now that this principle has been accepted during the Brussels conversations of June 6, by the Belgians, and made the subject of an authoritative announcement it appears that the question is up to Great Britain as to whether it can support this French demand. The announcement would appear to bar the way to consideration of any offer however good it might be unless and until the Germans consent to the resumption of normal work in the Ruhr. It is generally understood that the task of defining what "cessation of passive resistance" is is now the subject of consideration by the Franco-Belgian authorities in the Ruhr. Generally speaking it may be taken that the withdrawal of orders emanating from Berlin and the co-operation of the local authorities would be regarded as fulfilling the essential conditions. It is taken for granted that there will be some difficulty in eradicating local opposition on the part of the German workers in the Ruhr. The question now arises as to whether the Belgians and French can prevail upon the British Government to associate itself with them in the reply to Germany. The abstention of the British, it is held, will only prolong the strife since in any case the French mean to stay quiet uninfluenced by the British view in this respect. It is held here that adherence to the request for cessation of resistance would not imply a general acceptance of the French policy of January 11 but only recognition that the surest and speediest way of escape from the deadlock is for the Allies jointly to insist on Germany's submission. It is felt that against the united Allies Germany would be unable to continue and would make proposals that would be really acceptable before it is too late. The whole question therefore appears to resolve itself into one as to whether any formula can be reached by which Great Britain can hasten the conclusion of French action by ranging herself on the side of France for this purpose without surrendering her individual opinion on the expediency of the steps taken in January, and without sacrificing any more than she may deem expedient of her equity not only in reparations but in her French and Belgian debts.

M. Delacroix yesterday informally stated that the only chance he saw of any immediate forward step in the present situation (so long as M. Poincaré remained in power) was the hope of agreement on a joint reply, or at least identical replies being sent by the British, Italian, French and Belgian Governments to the new German proposals. If such were possible the grounds would be laid for holding a conference where the whole question could be thrashed out around "the green table". M. Delacroix confidentially ventured the prediction that if an arrangement of this kind were not possible, and if M. Poincaré went along on his present path carrying M. Theunis with him, both the present French and Belgian Governments would fall at a comparatively early date. In M. Delacroix' view the saner elements (particularly business and financial) in both France and Belgium were becoming restive under the uncertainties of the present situation. The fall of the Governments, under M. Delacroix' prediction, would be on internal issues rather than on the German issue, but the underlying cause would be the general dissatisfaction of the people with the conduct of the German negotiations.



In connection with the foregoing predictions of M. Delacroix, it is of interest to refer to certain recent happenings in the French Parliament which carry some significance. Last week the French Senate Commission on Foreign Affairs passed a resolution in effect as follows.

In the judgment of the Commission of Foreign Affairs, the following steps should be taken by the French Government:

- (1) An immediate agreement with Belgium on the common plan of settlement desired by Belgium and France.
- (2) Such common plan to be immediately submitted to the British Government and if possible the assent of the British be secured to such common plan, and
- (3) That the general situation required an early settlement of the German question.

The French Senate carries little political weight in France, and therefore the importance of this Commission's report should not be exaggerated. However, it is of interest as it is the first time that any parliamentary Commission has ventured suggestions to the Government carrying with them some criticism of the Government's German policy. A much more important recent incident was in connection with a speech of M. Herriot, the French Socialist Leader and parliamentary opponent of M. Poincaré in the Chamber of Deputies. After M. Herriot had made a speech criticising the Government on certain internal issues the question arose as to whether or not the Chamber would approve this speech being printed by the Government and posted on Government bulletin boards throughout France. The Government opposed this procedure, but the printing and posting of the speech was approved by a majority vote in the Chamber. The Government in this instance did not force a vote of confidence. These two incidents, together with certain other minor parliamentary incidents to which it is scarcely necessary to refer in this letter, are held to be indications of a considerable loss of strength to M. Poincaré in the French Parliament. Ostensibly the Herriot incident was based on an internal question. However, it is not difficult to see that an internal issue of this kind would not be forced in these critical days by the Opposition unless it had some bearing on the external conduct of affairs.

At this writing the situation is too nebulous and there are too many undetermined factors upon which to venture any considered opinion as to the immediate outcome of the situation. However, the evident desire of Great Britain to re-enter the field, the somewhat more conciliatory attitude of the Cuno Government, the cooling off of Franco-Belgian relations, and certain signs of falling off in confidence in M. Poincaré in French Parliamentary circles, can conservatively be taken as indications that a critical period in the negotiations preceding the eventual settlement is rapidly approaching.

JAL/BH

Faithfully yours,

The Honorable Benjamin Strong,  
New York City.

*John A. Logan*



JAMES A. LOGAN JR.

Paris, 18 rue de Tilsitt,  
14 June, 1923.

Personal & Confidential

My dear Ben,

On June 8 Signor Mussolini made the following statement in the Italian Senate concerning the foreign policy of the Italian Government:

"Everyone knows that Italy intends to follow an energetic policy for the protection of her interests. She desires to be represented everywhere her vital interests are under discussion, but at the same time she is favorable to a general political policy tending to normalize as rapidly as possible the political situation of Europe. It is of first interest to Italy to hasten a pacific settlement of the European crisis. This crisis, since the Treaty of Versailles, is dominated by the question of reparations. Vis-a-vis this problem the fundamental situation of Italy is the following:

(1) Germany can, and must, pay a sum which is universally recognized as just, though a sum less by many millions than that which was spoken of the day after the Armistice.

(2) Italy cannot tolerate modifications of a territorial character leading to any predominance or leadership in political, economic or military affairs.

(3) Italy is disposed to support her portion of the sacrifices, if this is necessary, for the reconstruction of European economy.

(4) The Italian Government holds today more than ever, and particularly as to the last German note, that the problem of reparations and that of European interallied debts are intimately connected and to a certain extent inter-dependent".

Signor Mussolini then referred to the Italian project he presented at the Prime Ministers Conference in London on December 9th 1922, and also to the British plan presented at the Prime Ministers Conference in Paris on January 2nd 1923.



"I recall these not with any desire of reopening discussion on their relative merits but to bring out the terms of this effort for a settlement of this grave question. An effort which must be well borne in mind in the event of a definite settlement being reached. The delivery of the English plan followed the conclusion of the Anglo-American accord. On the subject of debts, this latter accord excludes every idea of cancellation and even solemnly demands compensation for British payments to America by means of a participation in reparations. The position of the British has brought this out in special relief, and it cannot rest without its effect on the evolution of the entire question at issue as concerns the other European Powers. If after examination of the Italian and English projects one studies the German project, it is evident that the latter is unacceptable."

Signor Mussolini then referred to the fundamental basis of the last German proposal:

"The German capital debt which in the English and Italian projects was fixed at a figure of 60 billion gold marks is reduced in the German project by about one-third. It is difficult, even impossible, to determine by the project what part goes to Italy and the sacrifice which one demands of Italy. Germany itself recognizes the insufficiency of its proposal and the important bearing of the Interallied Debt on the question."

While the foregoing statement of Signor Mussolini is not precise as regards future Italian policy, it is nevertheless accepted in France as indicative of increasing separation of French and Italian policies and to a certain orientation of British and Italian points of view. It appears needless to point out that this statement on account of its reference to the Interallied Debt position has a certain interest to us.

On June 9 the French Government sent a note to the British Government containing an invitation to the latter to join with France and Belgium in formulating a joint reply to the new German proposals of June 7, 1923. This note, however, contained important reserves. We are informed that the note opened with a preamble to the effect that "the French Government was disposed to open conversations with England and Belgium for the purpose of endeavoring to unite these three countries in a common policy as to reparation". The principal conditions imposed, however, were that the French memorandum of January 2 which was submitted by M. Poincare at the Conference of Prime Ministers in Paris January 2, 1923, "must be taken as the basis of any system to be established". It called particular attention to the two principal parts of this memorandum, viz:



(A) That the reduction of the German debt to 50 billion gold marks must be followed at once and the same time by the cancellation of Interallied Debts, and that the diverse receipts from Germany must render a sum of at least one billion gold marks per year in the immediate future and up to such time as Germany could meet normal payments.

(B) That it would also carry with it the obligation on the part of Germany to definitely accept control by the Allies of the German railways on the left bank of the Rhine as well as control of the railways on the 50 kilometer strip along the right bank of the Rhine.

The note finally concluded by the statement that preliminary to any negotiations whatsoever with the Germans, the German Government would have to take the necessary measures to stop passive resistance in the occupied territories.

On June 11 the French press came out with the following statement reported as representing the semi-official views of the British Government on the question at issue, viz:

"The British Government is of the opinion that it is not possible to accept the demands of the French Government which proposes as a preliminary condition to interallied conversations the cessation of passive resistance by Germany in the Ruhr.

"It is of the opinion that no German Government is capable to execute this condition and that the greatest danger of it would be communistic reaction. It is very desirous to prevent any rupture with France, and it is of the opinion that negotiations between Allies should be held on the basis of the German memorandum notwithstanding that it recognizes that the figures are not acceptable and below those proposed by Mr. Bonar Law in January.

"It suggests therefore an amendment of the German plan and to have Germany recognize the figures of the Bonar Law project. The British Government is convinced that the German Government would be prepared to meet such solution.

"If the French Government considers that it must maintain its present point of view the British Government suggests an enquiry by a conference of Allied experts into the general situation of Germany to determine the figures upon which to base the payment of reparations by Germany and finally to study the complete problem of the European situation.

"In case these experts reach agreement the British Government is prepared to make representations to the German Government to the end that the latter forthwith cease passive resistance in the Ruhr."



The publication of the foregoing caused considerable dismay in Paris. The day following, June 12, the British Government by an official communique issued from Downing Street denied the authenticity of the statement, claiming it did not represent the views of the British Government and that the British Cabinet had not as yet acted on the question. This British denial has not been accepted in all quarters. There are those who feel that it was an afterthought brought about by the disturbance it occasioned in Paris, and the possible consequence of this "slamming the door" in the face of French public opinion.

The foregoing formal British denial was followed by an official statement to the effect that the British Government was still studying the question, and as a preliminary to any definite action proposed approaching the French Government through diplomatic channels for the purpose of informing itself on the French point of view. This was taken in France as a hopeful sign, for it is generally regarded that a British rupture would be disastrous and that there must, therefore, be no haste and no definite decision before there has been the fullest exchange of views. France feels Great Britain does not want to allow negotiations to come to an end before there is a real understanding, and this feeling is emphasized by the British intimation of its readiness to re-examine the whole problem. Obviously a reply to the German Government can not be sent without some kind of an examination of the whole problem. In addition, it is recognized that the French Government took the initiative--though very clumsily--of appealing to Great Britain to assert her solidarity with them. This in itself was a concession and under existing circumstances must be regarded as such.

The French press attempt to draw various distinctions between what the French Government really intended and the desires which have been attributed to it. As an example, it is declared that while France has said that the passive resistance of Germany must cease before there are conversations with Germany, she has never indicated that there must be no conversations between the Allies before Germany chooses to surrender. It is asserted that precisely by negotiations between the Allies and their results that the surrender of Germany may be brought about. It is pointed out that it would be absurd to make the relations of France and England depend on the relations of France and Germany. As for the idea of a committee of Allied experts, the French press points out it must not be confused with the idea of a committee of international experts. If France is opposed to international deliberations she is not opposed to interallied deliberations. One gets the impression from the changing tone of the French press that there is perhaps some glimmer of hope of a reparation settlement. There is unmistakable relief at the British Government's denial of the June 11th statement quoted above. It is a pretty good sign that this so-called decision did not bring about a wider separation between France and England.

It is rather curious the importance attached in the French press to the possibilities of a so-called "truce" or "armistice" in the Ruhr. The "Temps" in particular comments on the proposal in a recent leading editorial. It admits that Herr Cuno has not as yet shown any real desire to stop the strife, nevertheless, the "Temps" asserts that "France is sufficiently strong to be moderate". The "Temps" adds that "when the military forces entered the Ruhr it



was not for the purpose of instituting a regime of military occupation, but simply to lend assistance when necessary to the civilians who were given the task of assuring payments and exploiting pledges to which France felt she was entitled". It was asserted "that the so-called passive resistance, ordered and subsidized by Berlin, altered the general aspect. As that resistance prevented the exploitation of the pledges and endangered communications and even the safety of the troops it was necessary to augment the forces so that the functions of the military authorities in the Ruhr became predominant". The "Temps" adds "the day on which the Government of the Reich does all that it can to bring to an end this resistance and to induce the population to co-operate loyally with the Allies; the day on which there is a return to normal work, we shall find ourselves about back to the situation that the French and Belgian Governments had in mind on January 11. The rule of the civilians will again become predominant in the operations of the Ruhr". This statement, in our judgment, is significant as indicating the welcome which the suggestion of an "armistice" might receive in France were it to take definite shape. Obviously the French would doubtlessly make certain reservations. "For five months it is urged the German population has been excited and the consequences may be dangerous". It is said, therefore, to be necessary that "the Franco-Belgian military authorities should take the necessary measures to protect themselves". It is also said that it would be advisable not to allow the stocks of metallurgical products to be thrown precipitately on the World's market. "Subject to the foregoing reservations", the "Temps" asserts "an armistice or truce is possible".

The French press announce the receipt at the Quai d'Orsay on June 14 of a British Government memorandum requesting information as to the French point of view. The press gives the following summary of the request:

"In this memorandum of three pages the British Government asks for enlightenment not only on points relative to the occupation of the Ruhr, diminution of passive resistance, the proposed form of occupation in the latter eventuality, the proposed character of economic exploitation, conditions under which the progressive evacuation will be effected, but also on certain aspects of the general problem of reparations. In particular, the memorandum refers to a certain number of questions on which the British Government asks the French to precise their point of view. These latter questions refer to the method under which France proposes to distribute A, B and C Bonds under the Schedule of Payments of May 5, 1921; as to the French intentions on the ultimate organization of the customs cordon; and as to the operation of the "regie" of the Rhineland Railroads. In addition, it invites the French intention as to the time and degree of the moratorium it is proposed to eventually accord Germany."

After the foregoing summary the press generally concludes with the statement that:

"It is easy to see what has inspired the British Government to ask these detailed questions. They actually imply a recon-



"sideration of the principles which we have already exposed. The British Cabinet wants to be assured of a preliminary settlement of certain of these questions at issue before it takes any part in the controversy."

It is not possible to forecast the outcome of the present situation. However, there is a growing feeling of "malaise" on the part of French public opinion. The occupation has lasted now five months and notwithstanding all promises of the Government there appears little amelioration in the situation. Indeed, recent social disturbances, killing of French soldiers, and acts of sabotage in the Ruhr, have increased the feeling of uneasiness. In addition, the deflection of both Belgium and Italy from the French cause is gradually bringing the latter to an appreciation of the isolation of their position. The fall of the Theunis Government today, while on an internal issue, and while it is generally recognized that M. Theunis will be recalled to form the new Government, nevertheless implies a certain instability in the Governments involved in the Ruhr adventure which has its effect on public opinion. All of the foregoing is leading to a general desire to find an early solution.

M. Loucheur, with whom we have talked within the last few days, more or less openly asserted that M. Poincare's tenure of office was approaching an end. He confidentially told us that in view of the approaching French elections he did not want to succeed M. Poincare and was backing M. Barthou. During a luncheon party which we attended, and at which were present both M. Barthou and M. Loucheur, "the flirtation" between M. Barthou and M. Loucheur was quite obvious.

France is anxious to have Great Britain associated with her in the Ruhr. The French Government no longer strives to avoid discussion with the British and appears entirely willing to exchange views either upon the particular question of the Ruhr, or on the larger problem of reparations. The present stage of the conversations between Great Britain and France is that the French Government are being asked their views on certain specific points upon which the British want further light. A reply to these questions is embarrassing to the French as they are directed at the very foundation of the position so far maintained by M. Poincare. It is generally reported that the memorandum from the British Government is couched in the most friendly language which is important. However, the position remains in status quo, with the "upper hand" in the present controversy to a certain extent with the British.

Faithfully yours,

JAL/AJG



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



JAMES A. LOGAN JR.

Paris, 15 June 1923.  
18 rue de Tilsitt.

Personal & Confidential.

My dear Ben:-

On the third page of our letter of May 31, 1923, we referred to a proposed Belgian reparation plan which was submitted by the Belgian Government to the French Government preceding the Brussels conversation between M. Theunis and M. Poincare of June 6, 1923.

On Page Three of our letter of June 6, 1923, we made reference to the fact that, after agreement with M. Poincare, M. Theunis handed the British Government a copy of the same Belgian reparation plan. In this same letter we stated:

"Sir John Bradbury, with whom we have subsequently spoken on this subject, said that even this concession might be embarrassing to the British, as the Belgian plan, in his judgment, 'was so full of holes' that the British Government for political reasons would not care to actually pass on the plan, but would simply acknowledge its receipt and refrain from being drawn into discussion of its merits at this time."

The Belgian Delegation on the Reparation Commission has just handed us a copy of the above referred to Belgian reparation plan which we enclose herewith for your information.

Faithfully yours,



JAL/AJG

Encls. 1.

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



ACKNOWLEDGED

JUL 16 1923 <sup>mc</sup>

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JAMES A. LOGAN JR.

Paris, 18 rue de Tilsitt.  
29 June, 1923.

Personal & Confidential

My dear Ben,

The French have not as yet formally replied to the British questionnaire of June 14 requesting information as to the French point of view on questions connected with the Ruhr. The reason published by the French for their delay in answering is that the Belgian ministerial crisis makes it impossible to frame a joint Franco-Belgian response. There have been oral exchanges of views between the French and the British through diplomatic channels. We know, however, that there are wide divergences of views, and we surmise that both Mr. Baldwin and M. Poincaré for the time being prefer handling negotiations orally rather than in writing.

From recent conversations with Sir John Bradbury we gather that the British feel they are being "blackmailed" by the French to force them to cancel debts and forego participation in future reparation payments in exchange for a Ruhr settlement. From what Sir John said, the British feel that the French financial position, or better the natural wealth of France, places the latter in a fairly sound financial position, and that it is therefore not incumbent on Great Britain to alone shoulder all the sacrifices. According to Sir John, France today is the richest country in Europe and that notwithstanding this position, the Poincaré plan is to further mulct money from Great Britain on the plea of French poverty.

Aside from the purely political and security phases of the German question, it is interesting to refer to information received concerning recent happenings in the International Chamber of Commerce. In one of its Committee's meetings the proposal was made to hold a non-political business men's conference to consider a reparation settlement. We are advised that the French Member of the Committee, acting under instructions received from M. Poincaré, made, as a formal condition of his acceptance of this proposal and of French participation in such a conference prior agreement for the consideration of the various "questions at issue" in the following order: First.- That such conference first consider the question of the cancelation of interallied indebtedness; and Second.- That German payments on account of reparations should cover and first be applied on account of reconstruction of devastated areas, and that then and only if any balance were available applied to other categories of reparation charges. In other words, interallied debts canceled and reparation payments fixed so that some 30 to 35 billion gold marks would be available for France, Belgium and Italy. Then, any additional sums that could be made forthcoming from Germany, would be available for Great Britain. According to Sir John Bradbury, any such arrangement, in view of the general strength of the French financial position, would be entirely unequitable to Great Britain, who expected at least suf-



ficient funds on account of reparation payments to meet her American debt payments.

The separation in orientation of views between Belgium and France has been more marked than ever in the last few weeks. The fall of the Theunis Government, which has only today been re-established, was ostensibly on the internal question of languages in the great State University. However, underlying this difference, was the more important one of the Government's proposed extension of the period of active military service with the colors. The reason for the extension of the military service was admittedly to meet the present military necessities of the Belgian Ruhr occupation. However, behind all the foregoing is the general worry of possible eventualities leading to grave political and military commitments facing the Belgians in the present intangible state of the Ruhr venture. While the Theunis Ministry has been re-established and returned to power, it is generally felt to be well shaken. It is considered doubtful if their past policy of so strongly supporting the French thesis as in the past will continue.

As an interesting sidelight on the situation in Germany we refer to the following extracts from a confidential letter from Berlin, dated June 21, 1923:

"I was at luncheon given by Herr Albert (Minister of Reconstruction) the guests being besides myself Herr Luther (Minister of Food, and, until January 1923, Burgomaster of Essen), Herr Melchoir (of Warburg & Co.), Herr Ritecher (of the Dresdener Bank), von Maltzen (Under-Secretary of State for Foreign Affairs), Mr. Layton (of the League of Nations), and Professor Bonn (a German economist).

"The Germans present were very bitter, apparently irreconcilable. Said France is deliberately entering on a policy of starving the Ruhr into submission--is doing things less justifiable than even the worst things Germany did in Belgium. Insisted that 'passive resistance' is the spontaneous expression of the people. The Government could neither start nor stop it. Even in pre-war days the Ruhr district was bitterly anti-militaristic and Germany could keep only one small garrison there. The people are almost frantically opposed to the presence of soldiers and now are fairly raving at being under the control of French soldiers. The French claim that the occupation is not military, but only invisible, is a blatant farce. Luther said that he was still Burgomaster of Essen when the French came in. They came with tanks, machine guns, infantry and cavalry. The French General came to him (Herr Luther) in the Rathouse. Herr Luther formally protested against the occupation. The General replied 'This is not a military occupation, it is only an invisible occupation'. Yet even while the conference was going on the building was being surrounded by infantry and cavalry. In answer to questions from me Herr Luther and the others present admitted the German Government is still sending in out-of-work subsidies and that



"large private donations are also going in.

"The German position somewhat moderately put by Herr Albert and Professor Bonn is:

(1) That the military occupation is illegal---a violation of the Treaty. No German Government could stand a moment which admitted directly, or by inference, the legality of any occupation of territory other than that specifically agreed to when they signed the Treaty.

(2) Germany is a defeated party in the war and must and is willing to pay.

(3) Germany is ready to accept invisible occupation by the Allies, i.e. an engineering commission in the Ruhr, Berlin and elsewhere, to check data, investigate output and generally supervise payments.

Herr Albert thought Germany could and that politically it might be able to bring about party agreement for the payment of a sort of cash ransom of one billion gold marks in exchange for France's withdrawal of military occupation.

"Mr. Layton said that the British Government (and the British people as a whole) are convinced of the illegality of the French military occupation. No cooperation possible with France which could be construed as supporting this illegal action. Believed, however, that if Germany should ask England to join France, Belgium and Italy in a real invisible occupation on condition that French military occupation should cease and that the whole Ruhr and reparation questions be gone into in the manner outlined by the last German note an accord could be reached.

"Herr Albert and Prof. Bonn (the other men had left before this stage of the conversation) were evidently impressed by this suggestion, but refused to commit themselves definitely 'before thinking it over'. They did, however, virtually agree to try it out on the public through the newspapers".

While not attaching undue importance to this luncheon conversation, we nevertheless feel it of sufficient interest to report.

On June 24 the Seventh Conference of the League of Nations Union was held in Vienna, the delegates of 24 nations being present. The Press reports that:



"Representatives have come from two societies which have recently been formed in the United States of America to popularize the idea of the League of Nations in America. This is the first time United States delegates have been present at one of these Conferences. Germany is represented by Count Bernstorff.

"The question to be discussed which will probably arouse most interest is that of the Ruhr, which will be brought up by Mr. Layton in the Committee for Economic Questions. Mr. Layton believes that its solution depends, in the first place, on satisfying the French demand for security. He thinks that this can best be done by demilitarizing a zone between France and Germany, and through Great Britain's giving an undertaking, sanctioned by the League of Nations, to take action against any party violating the area. Security for France being guaranteed in this manner, Mr. Layton thinks that the reparations problem can be settled in the following way:-

(1) The amount of reparations due from Germany should be ascertained by an expert body.

(2) The receipts from Germany on account of reparations should be used in the first place for the restoration of the devastated areas, Great Britain waiving her claims unless the receipts exceed the cost of restoration.

(3) Great Britain should use her good offices to promote a commercial agreement to bring together on a business footing the fuel of Westphalia and the ore of Lorraine.

(4) Adequate provision should be made for the supervision of Germany's finances until the German debt can be mobilized and converted into a debt to private investors".

While the foregoing meeting was referred to in the French press it was not featured, as the French have no taste for mixing the League of Nations in the German settlement question.

On June 24, The London "Observer" published the text of a purported confidential report "recently submitted by the French representative in the Rhineland to his Government in Paris". This report purported to review the Separatist movement in the Rhineland with particular reference to its leader, Dr. Dorten. The "Observer" stated "though the complicity of France in the pertinacious attempts which have been and are being made to detach the Rhineland from the German Reich has never been seriously disputed, the document which we print is important as an authentic and detailed account of French action to that end and the clearest possible exposure of aim and method. It tells the chequered story of the relations between France and the German Separatists in the Rhineland during four years. It reveals the



hardening of the French dismemberment policy after the invasion of the Ruhr. The report is dated April 16, 1923, when Dr. Dorten was apparently in Paris and marked 'Personal and Strictly Confidential'. The report attempts to establish:

(1) That during four years the closest possible relations have existed between Dr. Dorten and the French High Commissioner in the Rhineland.

(2) That substantial financial contributions were made by the French to Dr. Dorten in the past.

(3) That Dr. Dorten had not only been active in the Separatist movement in the Rhineland but also active in similar movements in Bavaria and Hanover.

(4) That Dr. Dorten attempted to create quite recently but without particular success a sort of revolutionary secretariat in the Ruhr. That the French High Commissioner, as well as Dr. Dorten, considered 'the liberation of the Rhineland country' as their task.

(5) That at the end of the month of February 1923, the French High Commissioner reproached Dr. Dorten for not having made more progress in the Separatist movement; for not having made better use of the funds which had been placed at his disposal; and for having provoked a campaign in the French press against the French High Commissioner.

(6) That the French High Commissioner, while at first giving every support to the creation of a Rhineland Republic has shown some signs of weakening recently of which Dr. Dorten complained.

The report referred to above attracted wide publicity in all the European press. Its publication was immediately followed by the following official denial communicated by the Quai d'Orsay:

"The Minister of Foreign Affairs denied categorically the existence of a report of the French High Commissioner in the Rhineland as has been published by an English newspaper. The good faith of the journal which has inserted this purported report seems to have been imposed upon".

In our judgment, the report in question is more likely to have emanated from some of the French groups desiring a Rhineland Republic than from the French High Commissioner in the Rhineland and cannot therefore be taken too seriously. However, the fact that no specific denial is made of the alleged subsidizing of both Dr. Dorten and his schemes is of interest.

On June 25, the press reported the Italian Government as having issued the following semi-official statement:



"As concerns the attitude of Italy in the discussions between France and England on the question of the Ruhr, the Italian Government does not accept the plan exposed in the last German note and confirms the position taken by Italy at the London conference and maintained by her since. The Italian position has been definitely fixed and presents the key to the particular situations which develop from day to day".

While the foregoing is somewhat ambiguous, it is clear that it intends to again present the Italian position that the debt and reparation settlement questions are indivisible to the acceptance of any plan by Italy.

So far as the German position is concerned, it is interesting to refer to the following speech of Herr Cuno made at Koenigsberg on June 25:

"The Chandelior declared that he could say from his own experience that the spirit of resistance and the will to resist were still as firm among the population of the Ruhr as ever, and that this gave him the conviction and the hope that the entire people of Germany would show themselves as unbreakable in political and economic matters as the people of the Ruhr and the Rhine. Nothing, said Dr. Cuno, had been left undone to find a reasonable, supportable and final solution of the Reparations problem. Foreign press comment admitted that great progress had been made, although France was not ready for negotiations, and was still demanding the abandonment of passive resistance, which had not been created by the order of the Government, but by the will of the people. No Government order could end this, and, moreover, no German Government could wish to end it too previously so long as its abandonment did not show a certain path to a solution of justice and equity.

We shall reach this goal the sooner (concluded the Chancellor) the stronger our people in occupied territory show themselves, and the stronger the united will of the people of unoccupied Germany proves to be.

According to the newspapers here Dr. Cuno's speech contained the following passage, which is not included in the official version:

• The Government of the Reich has not acted with indifference and light-heartedly in the Ruhr question. It followed no other path than that of replying "No" to the arrogance of the enemy and the arbitrariness of M. Poincaré and his supporters in the matter of this unjust occupation of Germany. But this "No" shall be maintained so long as it is indispensable in the interest of free economic development and in the interest of the independence and sovereignty of Germany".



The foregoing speech and one immediately preceding it in the same tone by Herr Cuno at Berlin aroused bitter recriminations in the French press. While the German position is obviously weakening from day to day, these German utterances give little grounds for consolation to those hoping for an early settlement of the Ruhr controversy. The German note issue has now reached 13 trillion paper marks and is growing by leaps and bounds. However, as we explained in previous letters, German economy has more or less adjusted itself to falls in exchange, and we would therefore not care to forecast when the breaking point will be reached, if no Franco-British agreement is possible and the present Poincaré policy continued.

On June 27, Pope Pius XI wrote a letter to Cardinal Gasparri in which he states "once and for all" the attitude of the Vatican towards the reparation problem. The note begins by recalling the Pope's note to the Powers at the conference of Genoa in which he "pleaded for sincere efforts for the pacification of Europe". He points out "that since that date far from improving the European situation has gone from bad to worse in such a way as to cause the gravest preoccupation for the future". The note continues as follows:

"His Holiness intends to avail himself of every opportunity of alleviating the sufferings of humanity. Therefore, while the Powers are preparing new proposals and initiating further diplomatic discussions to find an amicable solution to the Central European question, he once more feels it his duty to speak with the disinterested and impartial voice of a universal father. In view of the grave responsibilities of those in whose hands lie the destinies of the peoples, the Pope entreats them to examine once more the many questions, and particularly that of reparations, 'with that Christian spirit which does not separate the principles of justice from those of that social charity upon which depends the perfection of civil accord.

'When the debtor gives proof of his sincere desire to arrive at a fair and definite agreement, invoking an impartial judgment on the limits of his capacity to pay, justice and social charity as well as the personal interests of the creditors demand that he shall not be forced to pay more than he can without entirely exhausting his resources of productivity. Equally though it be just that the creditors shall have guarantees in accordance with the amount of their debts, we put it to them', says the Pope, 'to consider whether it be necessary to maintain territorial occupation which imposes severe sacrifices on the occupying nation and occupied territories alike, or whether it would not be better to substitute, though gradually, other more suitable and certainly less odious guarantees'.

"His Holiness proceeds to say that were these peaceful criteria attempted by both sides the bitterness engendered by the occupation would cease with the final abandonment of the



"occupation itself, and it would then finally be possible to reach a really peaceful condition of affairs, to arrive at which no sacrifice should be considered too great. The inestimable effect of such a solution can be reached only by the grace of God Himself, and His Holiness concludes by once more exhorting the Catholic peoples openly to pray that such grace may be granted".

This Vatican note has caused comment in Belgium and France by reason of its political color, and because it reopens to a certain extent the dormant "church and state" question. The German press warmly endorses the Vatican action; the anti-clerical French press attacks it. Its political reaction in France has been to emphasize the allegation here of M. Poincaré's leanings toward the extreme Right, where clerical feeling is strong. The French Opposition has taken advantage of this by filing interpellations in the French Parliament, raising "the question of the import of the French Government's diplomatic relation with the Vatican". The anti-clerical elements in the French Parliament opposed diplomatic relationship with the Vatican; they now allege that this Vatican note was inspired by the Germans; and propose, by their interpellations to embarrass M. Poincaré's internal position.

We dined last night with M. Herriot, the French Socialist Leader and Mayor of Lyon. He was outspoken in his condemnation of M. Poincaré, and his policies. M. Herriot is a man of importance in French political life, and there is a strong possibility of his succeeding to the Government after the elections next Spring; He is an interesting man, and one whom Mr. Boyden terms "a conservative radical". It is of interest to report that M. Herriot has accepted an invitation of the Brooklyn Chamber of Commerce to visit America, and proposes sailing about the middle of July. M. Herriot visited Russia last fall. During the conversation last night he exposed original views concerning the Russian situation which were extremely interesting.

Faithfully yours,

*John A. Ryan*

JAL/BH

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



JAMES A. LOGAN JR.

Paris, 18 rue de Tilsitt.  
13 July, 1923.

Personal & Confidential

My dear Ben,

The Vatican's note which in our letter of June 29th we said had been made the subject of interpellations in the French Parliament occupied the attention of the Press for some days. Importance was attached to the French Ambassador Jonmart's "hour's conversation" with the Pope on June 30th followed by Cardinal Gasparri's statement described as "tending to clear away misunderstandings as to the motives and purposes of the Papal letter".

Cardinal Gasparri's statement maintains the right of Germany, the debtor, to ask for impartial judgment as to the limits of her capacity, however, at the same time, making it obligatory upon Germany to present the real facts and submit to every means of control. The statement goes on to say that it is incumbent upon Germany to pay reparations for the damages done up to the limit of her capacity. It is however incumbent upon the debtors to limit their demands by Germany's capacity. It concludes:

"In fact the creditors have not made such demands but deny the sincerity of Germany and consider that the reparation figures actually demanded in no way exceed Germany's capacity for payment and that therefore there is no need of judgment or control.

Such are the points which will be examined during the ensuing diplomatic conversations in which the Holy See neither can nor desires to meddle. It admits that it hopes the Powers will succeed in fixing the amount of the German debt.

As to guarantees the Holy See recognises the right of the creditors to take guarantees proportionate to the importance of their credit. The Holy See entrusts the creditors themselves with the task of examining whether for the safety of their credits it is absolutely necessary to maintain territorial occupations which entail for the occupying Powers and for the populations considerable sacrifices and if it would not be advisable progressively to substitute other guarantees equally effective."

Cardinal Gasparri in presenting this note added comments "tending to demonstrate that the letter of the Pope was based upon the hypothesis of a debtor endeavoring to faithfully discharge his duty but if this hypothesis should

have to be rejected the bearing of the Pontifical letter would become completely



The interpellations in the French Parliament demanded by the Radical-Socialists upon:

1. the attitude of the French Ambassador to the Vatican in the presence of the Papal note referring to reparations due France by Germany, and
2. the attitude of the Government as a result of this "grave diplomatic incident", gave rise to heated debate which was terminated by M. Poincaré dissecting the Papal letter point by point. In the course of his speech he said: "The Pope has pronounced words of Christian charity; they can have no political significance for us". He continued by saying: "No temporal or spiritual power on earth can deprive us of the rights we possess under the Versailles Treaty, and France, which had advanced a hundred billions on Germany's account is prepared to keep waiting still longer the great international consortiums who alone desire to finance the German debt for their personal profit."

"We have gone into the Ruhr in order that Germany shall keep her engagements. She is resisting, she is spilling the blood of our soldiers and of Belgium's soldiers. Let her first of all give up this criminal resistance. Let her then keep her engagements and we will evacuate the Ruhr in the measure that these are kept. The quicker that Germany will pay, the quicker we will evacuate.

"There are the truths which we will not cease to repeat; I despair not to see these truths penetrate our Allies and arrive even to the Vatican; we will do everything to make them triumph".

M. Poincaré was given a long ovation on descending from the tribune and in the ensuing vote the Government was supported by 378 votes to 157.

During the past two weeks frequent reference appeared in the press to the diplomatic conversations in Paris and London between the French and British, the British desiring a written answer to their questionnaire whereas the French were reluctant to give any such written reply and were dragging the questions along through diplomatic conversations. This latter procedure finally led to the Baldwin statement in the House of Parliament on June 12th which is hereinafter referred to.

During all the past period there has been little evidence of weakening of the French policy. M. Poincaré in the Senate on June 30th, when discussing the question of credits for the Ruhr, made the following statements which are of interest as showing the French position.

"M. Poincaré said that the detailed statement of the Director of the Budget simplified his task, and that therefore he would confine himself briefly to justifying the project before the Senate. He continued:



Project based on decree of August 10, 1923, and under law of August 10, 1920. Expenditures a consequence of the seizure of gages approved by Parliament. Expenditures constitute reimbursable advances. "They are destined to cover the costs of an occupation made by three of the allied powers in the interest of all the allies". But before entering into details of figures he wishes to go back to the past and justify "not for the Senate, whose sentiment is fixed in this regard, but for foreign opinion, for the temporal powers and if necessary, for the spiritual powers", the measures taken and the additional measures proposed to be taken if necessary toward a failing and recalcitrant debtor.

The Treaty of Versailles empowered the Reparation Commission to fix before May 1, 1921, the amount of the German debt. The list was as large and complete as possible. In addition, Germany was to guarantee her debt by delivering to the Allies bearer bonds to the amount of 100 milliards of gold marks. This sum represented to the authors of the Treaty a minimum fixed before any evaluation. The first installment was payable before May, 1, 1921. From the day of the Treaty the bad faith of Germany was made apparent to the Commission and to the creditor nations.

These latter, in April 1920, at the time of the Conference of San Remo issued a statement setting forth that Germany had not fulfilled her engagements, in the destruction of material of war, in the reduction of her military effectives, in the furnishing of coal, in reparations, nor in the costs of the armies of occupation; that the Allies are unanimous in declaring that they will not tolerate a continuation of these infractions, and that "they are resolved to have recourse to all measures necessary, even if these include the occupation of a new portion of German territory". This declaration bore the signatures, among others, of Lloyd George and Nitti.

In July, 1920, a new conference at Spa. Germany alleging that she was unable to pay for mining coal for delivery to the Allies, it was decided at the instance of certain of the Allied powers present, that those who were to receive coal would themselves make advances to Germany. These advances amounted to 392 millions of gold marks, the greater part of which was made by France.

Germany was obliged during the following six months, to furnish two millions of tons of coal per month, failing which the Allies would occupy "a new portion of German territory, the region of the Ruhr or any other". Before this menace Germany carried on until the date set, November 15th, but immediately after recommenced her resistance.

A new conference at Paris in January 1921. The Allies announced that if Germany did not change her attitude they would take sanctions: "prolongation of the period of occupation of the left bank of the Rhine, occupation of the Ruhr, seizure of revenues of the left bank, special customs regime, or any other necessary measures".



Germany continues to evade. In March, 1921, she is summoned to the Conference of London and invited to make proposals. These appeared so derisory that Lloyd George himself manifested publicly his indignation, and announced that if Germany did not return to reason, Duisbourg, Ruhrort and Dusseldorf would be occupied. The occupation took place. Germany persists in her evasions.

She has not even paid the 20 milliards of gold marks that she was to have paid before the 1st of May 1921. At that date she has paid only 5 milliards 300 millions, or rather if one deducts what she has herself received in raw materials and foodstuffs, 2 milliards 500 millions only, which was to have been applied by priority, not to reparations, but to the costs of the armies of occupation.

Thus, the 1st of May, 1921, we had not yet received anything for our damages. The Reparation Commission having heard at great length, and conscientiously, the thirty-two German delegates, fixed on April 27, 1921, the debt of Germany at 132 milliards of gold marks, value as of May 1, 1921. "I insist on this indication, which is too often neglected."

By the terms of the Treaty, the Reparation Commission was also to draw up the details and methods of payment.

The Commission had commenced to prepare a statement and had summoned Germany to submit it to her when a new conference opened at London. This Conference itself elaborated a schedule of payments which was communicated to the Commission to be ratified. It is the Schedule of Payments of May 5, 1921.

The Schedule creates three classes of obligations, of which the total appears to be 132 milliards of gold marks. But as these bonds provide for derisory interest rates, and as the date of issue of the bonds of the third series is uncertain, the German debt in fact is reduced by considerable proportions and it is impossible to evaluate. This may be one reason for the Allies to show themselves more severe in the future in their claims.

The Allies seemed at first to understand this: they intended that the Schedule of Payments should be their last word, and in so notifying Germany they accompanied the notification by an ultimatum. If Germany had not by the 12th of May given its adhesion, the occupation of the Ruhr would be commenced, without prejudice to any other measures, military and naval.

The 11th of May, Chancellor Wirth advised of his acceptance of the Schedule of Payments. That promise saved the Ruhr.

The arrangement between the Allies which had arrived at the Schedule of Payments created a Committee of Guarantees, which went to Germany but was unable to obtain any satisfaction.



The Reparation Commission then went to Berlin itself. Germany made it known to the Commission that she would be unable to meet the payments falling due in 1922, and let it be known that a moratorium would be necessary. On the 2nd of December, 1921, the Reparation Commission addressed to Germany a solemn summons to pay.

The 14th of December the German Government replied by an official request for a moratorium. The Reparation Commission protested, but stopped there, because a new conference, initiated by Lloyd George, was to take place at Cannes. Germany resumed her hopes.

The conference convened, but was brusquely terminated by the return of Briand to Paris. The Reparation Commission then took temporary measures, and invited Germany to make firm proposals. The Allied Governments having given full liberty to the Reparation Commission, the Commission accorded on the 22nd of March, 1922, a partial moratorium to Germany.

Germany was to pay annually 720 millions of gold marks in specie, and 1,450 millions of gold marks in kind. Nevertheless, the 12th of July, 1922, Germany insisted on obtaining a more extended moratorium.

The French Government saw itself forced to prepare new measures. I advised Mr. Lloyd George of this fact in the month of August, and explained to him that it was necessary that Germany give us gages. I was unable to convince him.

Nothing, nevertheless, was more reasonable nor more moderate than the thesis of France. Germany had done nothing to re-establish order in her finances. She had followed a policy of wastage and decay.

She had inaugurated without count all sorts of Government works for which she paid in increasing without cessation her issue of paper money. German industry had a re-birth, she resumed her former place on all the old foreign markets and she converted her profits into foreign securities which she put on deposit outside the limits of Germany.

During this time England experienced an unemployment crisis, and France spent milliards on milliards to restore her devastated regions.

Again, if Germany had furnished her deliveries in kind to which she was obligated! But she did not execute one of the agreements which she had signed relative to these deliveries in kind.

Also, the Reparation Commission, after having reported several partial defaults in the execution of the obligations of the Treaty, reported a general default by a majority of three votes. This decision gave us under the very terms of the Treaty, the right to take all measures rendered necessary by the situation, without Germany having the right to consider them as acts of hostility.



Therefore, the 11th of January we entered the Ruhr.

We entered the Ruhr because we esteemed that guarantees must be taken against the voluntary insolvency of our debtor, and because the Treaty authorizes us to do so.

Why have we occupied the Ruhr rather than Franckfort or the valley of the Main? I want to say why, with a view of showing how false are the accusations of militarism and imperialism brought against France.

If we were imperialists we would have occupied the valley of the Main which, separating Bavaria from Prussia and Saxony, cuts Germany in two. We have not done this because our only object was to exercise upon our debtors an efficacious pressure.

The Ruhr, which furnishes to Germany 60 per cent of her coal and 80 percent of her iron ore, is her strong box. We have taken the key, and we have said to her: "You will give us a part of your riches or we will prevent you from profiting from them".

The basin of the Ruhr is a territory of untold riches. It supports an extremely dense population which exceeds six millions of inhabitants; it is also the corner of the world where there are the most factories, the most canals, the most railroads. Very well, we occupy this region, so difficult and so populous, which includes a length of 96 kilometres, with an army of 50,000 men only.

We have even occupied it at first with fewer effectives. Because our army has entered only to protect our engineers, our customs officials, and our foresters. Its presence in the Ruhr is at the same time a protection and a symbol, the symbol of our inalterable will to be paid our due and that by all methods, by force if need be.

So it was not with our military that the Germans first had business. Our engineers, our customs officials and our foresters presented themselves in the Ruhr, and in accordance with our formal instructions, they communicated to the Germans the following proposals: "Nothing will be changed in the economic life of the occupied territory. An allied mission will watch the operations of the Kohlensyndikat, the production of the factories and the collection of the coal tax (Kohlensteuer); Allied customs officials will collaborate with the German customs officials to assure the collection of taxes in force, and our foresters will supervise the exploitation of the forests in order that deliveries of timber shall be made in conformity with the Treaty".

It was thus a peaceful collaboration that we offered the Germans. I have been a number of times criticized for this attitude as a sign of weakness. I believe that we were right to act in this manner, to show to the eyes of the world the extent to which our intentions are peaceful.



On the other hand, for a short time the Germans seemed to accept this collaboration with good grace. This was the case with the German railway workers who without protest transported our troops as well as the Belgian troops, and the first interviews of our engineers with the industrials were satisfactory. Nevertheless, the Kohlensyndikat evaded and moved its headquarters from Essen to Hamburg, and shortly after organized resistance commenced.

This resistance, it must be stated clearly, so that no possible misunderstanding can exist, has been directed, ordered, and organized by the Government at Berlin, in spite of the formal text of the Treaty, which has contested the right which we had to enter the Ruhr. It is the Government at Berlin which has treated us as enemies, exactly as though hostilities had been renewed.

This attitude shows clearly how the government of Cuno would have acted if it had the power. Fortunately to-day might as well as right is with us. It is for this reason that the Cuno government has invented the form of resistance which it has wrongly termed "passive", because no resistance in reality has ever been more active, more violent, more perfidious nor more criminal.

This idea of resistance does not come from the Rhenish population, but from the big industrials and from the German Government. I do not believe that this is unknown anywhere, even at that Throne which is the depository of All Truth.

It is upon instructions from Berlin that in the Ruhr all our proposals of arrangement have been rejected, that the industrials have refused us all deliveries, that the railroad workers and the post office officials and employees have ceased work.

The German Government has gone farther, it has prescribed severe penalties against those of its nationals who show toward us good will or even indifference. To assess these penalties it has created a special branch of the Court of Leipzig. It is a true reign of terror that has been organized.

But this is not yet all. Bands of agitators enter the Ruhr constantly on the instigation of the German Government. There, they commit all sorts of assaults and sabotage. Schlagetter and his accomplices confessed that they were in relations with a special bureau reporting to the Minister of War at Berlin, and Chancellor Cuno believed it his duty after the execution of the condemned, to send the condolences of the Government to his widow.

During this time what have we done? In spite of ourselves, we have been forced to increase our pressure. We have seen ourselves forced to have recourse to the first measures of coercion; the resistance continuing, we have ourselves continued; in spite of everything and of everybody we will know how to continue.



The struggle is to-day between two wills: that of our victorious nation, and that of a vanquished nation which endeavors by all methods to escape the consequences of a defeat which it does not want to recognise.

We have had to take in hand the exploitation of the railroads, and to install a Franco-Belgian direction under an experienced Frenchman to whom I wish to render the homage he merits.

So as not to interfere with the local customs we have kept the old divisions. Some ten thousand French railroad men, a portion militarized and others civilian volunteers, all show an admirable devotion to duty, and assure the exploitation with the help of Belgian railroadmen and of six thousand Germans.

This reduced personnel replaces 150,000 German employees, and is able to move daily 280 trains on 8,000 kilometres of track.

We are going to double-track the line from Duren which has been turned over to us by England. This double-tracking will greatly facilitate transport. We have raised and stabilized the tariffs, in stipulating that the price of transport shall be paid in francs.

We have operated for the postal service as for the railroads. The German postal officials and employees having imitated the railroad men, we have occupied the post offices and used the lines. There again the French and Belgian employees have given proof of an absolute devotion. The Germans then commenced sabotage. We have prosecuted and condemned the guilty: now they let us telegraph in peace.

We have decided to act similarly along all lines.

The Reichsbank having refused to give us the marks which were regularly due us for the upkeep of the Army of the Rhine, we have seized them. But it is well understood, we have scrupulously credited to Germany the sums seized, and placed to one side the portion pertaining to our Allies.

The industrials refused to pay us the tax on coal, doubtless because they have never paid it to the German Government. We have paid ourselves in kind, in coal. We operate in the same manner for timber.

In the same manner a number of measures have been taken which were neither initiated on our part, nor vexatious, but replies and ripostes. I avoid voluntarily the word reprisals.

All these measures have been dominated by two operations of general order. At the beginning of February we drew around the Ruhr a customs cordon and decided that not one ton of coal destined for Germany should cross. In addition, the 15th of February we applied the same interdiction to factory products, and established export taxes.

In a word, we replied to the German resistance by a blockade, but



understand us well, by an export blockade only, and limited to coal and to metals. Contrary to the calomnies and the shameful lies of Germany, we have never prevented in any manner whatsoever the revictualling of the population in foodstuffs. Our troops do not even subsist on the resources of the country.

From the beginning of the occupation, General Degoutte, to whose wisdom I have the duty to render publicly justice, gave orders to take nothing from the region for the feeding of the troops.

Before the occupation about 400 carloads of foodstuffs daily entered the Ruhr. At the present time they enter about 500. Never before had the Ruhr been so well supplied with foodstuffs. We have even established warehouses and organized soup kitchens for the poor. These latter cost us more than 100,000 francs per month. This does not prevent Germany from distributing abominable pamphlets accusing our soldiers of stealing milk from infants to give to their dogs.

What has pushed Germany to resistance has been her belief that she could deprive us of coal and coke. She knew that our mines of the Pas-de-Calais were flooded, and had not reflected that the blockade of the Ruhr would accumulate large stocks of coal and that we would have the ability to seize these and transport them to France.

We have sent from France and Belgium crews of workers with tools; 1,500 German workmen were soon added to these, and the shipments of coal and coke are sufficient to keep our factories in operation.

We have in addition seized chemical products and duestuffs because the discussions with the German manufacturers for deliveries in kind did not give any result. This delicate and even dangerous operation was carried out the 15th of May under the direction of M. Fleurant and of chemical engineers who have received the felicitations of the Government: 7,000 tons of first-class dyestuffs of a value of 200 to 300 millions (of which the parts of England and Italy have naturally been set aside) have come into our possession.

We have taken the quantities which the deliveries in kind would naturally have given us. The excess will be sold and upon the proceeds of the sale will be assessed the amount of the expenses for the creation of the gage guaranteeing the interallied credits. We will hand to the German manufacturers bonds of requisition upon the German State, our debtor.

All receipts and expenditures are accounted for. I have given to your Finance Committee and Foreign Affairs Committee details which I cannot repeat here. I indicate only that the receipts increase from week to week: the coal tax (Kohlensteuer) has given to the present 498,661,000 gold marks; the customs have given 1,547,537 gold marks; export licenses 1,187,116.



The situation of the direction of the railroads is excellent; the expenses foreseen were 128 millions for the three last months; the expenditures made were only 47 millions. The administration has right to all our praises.

The shipments of coal and coke reached on the 20th of June a total of 1,396,051 tons, representing a receipt of 95 millions against an expenditure of 8 millions.

The existing stocks are seized one after the other. They are slowly reconstituted, and even if they are not reconstituted they will suffice for our needs for long months to come. In addition we have taken measures to put into operation a certain number of German coke ovens when this shall be necessary.

General Degoutte commands alone in the Ruhr and is invested with the largest powers. He keeps in constant communication with the Interallied Rhineland High Commission in the Rhineland which is presided over by the French delegate, M. Tirard. All the decrees of General Degoutte in the Ruhr have corresponded to the ordinances of the High Commission, taken by the majority composed of delegates of France, Belgium and Italy, and sometimes with the assent of the British Delegate.

M. Gaudin de Villaine, who I regret to learn is kept away from the Senate by illness, recently made allusion to disagreements between General Degoutte and M. Tirard. Nothing of the kind has existed; the accord is perfect between the High Commission and the High Command of the Ruhr on all essential questions.

This understanding, due for the larger part of the tact of M. Tirard, has permitted the taking of measures against Prussian civil servants who made themselves the most insolent of agents of Pangermanism; 16,000 of these civil servants have been expelled. It is thus that we have been able to develop our pressure on the occupied territories.

To keep up the resistance, the German Government distributes without count money to civil servants, industrials, workmen, without these large expenditures, giving the least return to the Government. Due to this insane policy, inflation in Germany has reached the same level as in Russia.

The circulation in Germany is figured by trillions. The depreciation of the mark, for a short time halted artificially by the Reichsbank, has continued. For the corresponding continual increase in salaries there has been an uninterrupted flow of paper issues.

Germany moves in a vicious circle and makes no effort to get out. She counts on a miracle to pull her out. But miracles happen rarely. Never a day passes that one of her industrials does not endeavor to reach an understanding with our industrials or with our statesmen. I am always advised, and the meetings do not occur.

Sometimes Germany hopes for an intervention of our allies, again



she awaits her salvation. She hopes for our discouragement, trusts in our lassitude. She deceives herself greatly. We have made known our essential terms, we will not modify them. We will that the Treaty shall be executed. At Brussels the Belgian Government and we have decided not to examine the German proposals until Germany has ceased her resistance. We will not evacuate the Ruhr except in the same degree as payments are made, just as Germany did after 1870.

The only means which we have to make Germany pay is the desire that Germany has to recover the Ruhr. We have <sup>no</sup> thought of annexation, and we repel with energy all accusations of imperialism.

We do not want to confiscate the Ruhr; we will keep it until Germany has paid her debt.

The latest propositions of Germany are not serious; they do not merit a reply. If Germany does not understand this, so much the worse for Germany. We will not abandon a gage as precious as the Ruhr until Germany has acquitted her debt. If we recross the Rhine before this payment it would be to spread the belief that she has inflicted upon us a revenge and a humiliation. What then would not take place in Germany, to what follies would not the nationalist and military parties go? The truth is that our troops not only defend the signed treaties, but also the German republic itself against the consequences of its aberrations. The troops will achieve their work of justice and of peace. One other time they have merited well of their country.

We give the foregoing statement of Mr. Poincaré in detail on account of its unusual interest in presenting the development of the French thesis from the time of the Armistice to date. Being a purely ex parte statement we do not subscribe to all its statements and conclusions.

President Millerand in the course of an address within the last few days at Clermont-Ferrand made the following statement which is hardly less indicative of any softening of the French attitude than the preceding Poincaré speech, viz:

"The foreign policy which France has affirmed, she will maintain to the end, convinced that the loyalty, clearness and good faith of this policy will end in its being vindicated in spite of errors and efforts to prevent it".

When Mr. Baldwin's intention to outline the British position in the German controversy in the British Parliament was made known, a feeling of malaise developed in France and Belgium. Wild rumors were circulated of an impending rupture of relations between France and Great Britain. M. Gutt, the principal Assistant to M. Theunis, told us on July 9th that the situation was "extremely grave". The Belgians were particularly nervous. The badly shaken and only newly re-constructed Theunis Government was particularly fearful of the outcome of the situation which might be occasioned by the Baldwin speech. It appears that the Theunis Government, before returning to power, agreed with the various Belgian political leaders that it would not take a position invol-



ving a definite break with Great Britain without submitting the question to open debate in the Belgian Parliament and on this account M. Theunis' position was extremely difficult.

We gather that there was some divergence of views between groups in the British Cabinet as to the character of the declaration to be made by Mr. Baldwin. The McKenna group, we hear, advocated a stiff expression of views and even a willingness to accept the consequences of a rupture with France. On the other hand, the Derby group preferred a conciliatory statement. This latter group felt that little practical good would be accomplished by a rupture and that a rupture might occasion a strengthening of Poincaré's position and even more disastrous results in general than those resulting from a more or less "laissez-faire" attitude of conciliation.

On the other hand the French press was most outspoken in its criticism of the forecasted British attitude. On July 12th an obviously inspired press article appeared purporting to be the "authoritative statement from the highest French authority" and bearing the head lines "Clear Declaration of French policy" as follows:

- 1.- While Germany continues her passive resistance, France will decline to negotiate with her;
- 2.- Although the character of the Ruhr Occupation may be modified whenever Germany decides to cease her resistance, there will be no formal evacuation until France receives full payment;
- 3.- French demands are still founded upon the Schedule of Payments of May 1921, but France is willing to agree to any combination which will assure her, say 26 milliard gold marks not subject to a deduction on account of Interallied Debts".

During the period preceding the publication of the Baldwin speech and as before stated, the European Press was filled with articles of conjecture, warning, suggestions of policies, which in tone ran the whole gamut of human emotion. The French press generally, with the exception of certain radical socialist journals, while supporting the Poincaré thesis, nevertheless editorially expressed a desire for Franco-British cooperation. The British press while somewhat divided in its sympathies suggested patience until Mr. Baldwin had outlined the Government's policy.

Considerable attention was attracted by the following reference to the situation in a speech of Mr. Baldwin in the House of Commons on July 4th:

"The position is, as I think I have stated to this House more than once in answer to questions, that those who owe us money owe us money still. In other words; we are the creditor and they are the debtor. The offer which was made in January and which was not accepted has left our hands perfectly free to deal with these matters as we may deem best".



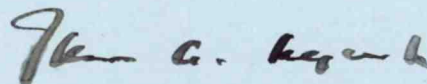
We have from time to time referred to the importance attached by the French to Germany's enforcing measures to prevent the "flight of capital". The British have consistently held that under existing conditions efficacious measures for the prevention of such flight of capital are fallacious. A humorous touch was added to the discussion when at a recent meeting of the Committee of Guarantees, the British member remarked that in reality any future consideration of ways and means to the end desired by the French was sheer waste of time because the I.A.R.H.C. by reason of losses in Allied financial houses had rescinded in the occupied territory all German measures for the prevention of the flight of capital. As a result of this any German desiring to deal in foreign currencies or export his capital had no more difficulty than dealing through financial houses in Cologne. In fact, General Degoutte published an order to the effect that the German Government ordinances of May 8th, June 17th and June 22nd for the curtailing of currency speculation are inapplicable in the Ruhr occupied zone. Art. 2 of his decree reads: "Consequently foreign currency commerce in the Ruhr occupied territory is unrestricted". This ordinance in view of the attitude of the French Delegation toward the flight of capital and their repeated insistence that Germany should take measures against it is somewhat anomalous.

Enclosed as Exhibit A is copy of the speech of Mr. Baldwin in the House of Commons on July 12th. We consider it conciliatory in tone. The speech contains no precise proposals nor new statements, except the announcement of the British draft reply to the German note of June 7th and the statement that it was premature to discuss the nature of this reply now but that it would be submitted to the Allies for their consideration and remarks with the least possible delay. Prefaced by a statement of the British Government's desire for the continuance of good will between nations, the speech appears to be merely a repetition of the statement of the British position and a mere reference to points which M. Poincaré, with the support of his Parliament, has repeatedly declared to be unacceptable. Mr. Baldwin, however, does say that the peace of Europe depends upon the solution of three great questions, i.e., Reparations, Interallied Debts, and Securities. It is impossible at this writing to make any estimate of the effect of the speech on public opinion on the Continent.

The foregoing letter is merely a resumé of the more important developments of the situation since our last letter.

Faithfully yours,

JAL/BH  
1 encl.



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



JAMES A. LOGAN JR.

Paris, 18 rue de Wilsitt.  
26 July, 1923.

Subject: Hungarian Reparations, Financial  
Rehabilitation, Loans, etc.

Personal & Confidential

My dear Ben,

During the past few months the European press has contained references to the "Financial Rehabilitation of Hungary", "Waivers of Reparation Liens", "Long and Short Term Loans", etc. It is believed that a useful purpose may be served by reporting the past history and present position of these questions. The data used is largely based on information furnished informally by Sir William Goode who is now in the employ of the Hungarian Government as an Adviser in these negotiations.

While the financial and economic position of Hungary is fundamentally sounder than that of Austria a year ago, nevertheless the political factors which have a controlling influence on rehabilitation present more serious difficulties. The Czecho-Slovakian, S. H. S., and Roumanian Governments, as well known, are suspicious of the aims of the Hungarian Government. The somewhat militant attitude of the Hungarians, the fact of holding to the old terminology of "Kingdom of Hungary" with the head of the Government a "Régent", and the incident possibility of a "Hapsburg" being placed on the throne, all tends to inflame the feelings of the Little Entente. As will be noted from this report the British, backed by the Italians, support the policy of prompt financial support for Hungary. Incidentally, the British advance the League of Nations' control principle as in the case of Austria. The French, for the present, support the thesis of the Little Entente. Ostensibly, the French attitude is dictated by a policy of currying favor with the Little Entente. However, back of this it is generally felt that France has no desire to see the League of Nations' action further extended by its interjection into the Hungarian situation on account of the somewhat logical grounds it might create for interjecting the League of Nations into the German reparation question.

It is the apparent desire of Count Bethlen, the Prime Minister of Hungary, to effect more cordial relationships with the Little Entente and at the same time prevent any further decay of the economic and financial fabric of his country. The Hungarians have seen the practical working out of the policy of conciliation as followed by Austria. The more conservative elements led by Count Bethlen have "taken a leaf from the Austrian book" with the desire of attaining the same goal.



In January of this year the Hungarian Korona stood at approximately 2,150 to the dollar as compared with 658 to the dollar in January 1922. The fiduciary circulation in January 1923, was 79.6 milliard paper Korona as compared with 27.9 milliard paper Korona in January 1922. Hungarian exchange would undoubtedly have reached a much lower quotation in sympathy with German, Austrian and Polish exchanges, except for the extremely arbitrary restrictions imposed last year by the Government such as a rigid Devizen Zentrale, heavy export duties on food products, prohibitions of imports, etc. These restrictions, while temporarily preventing a catastrophic depreciation in exchange, created an entirely artificial situation which seriously affected the agricultural and industrial life of the country. Exports became exhausted and in consequence the Devizen Zentrale ceased to obtain the foreign currencies on which its existence depended. Such foreign currencies as came into the country were then - and are now - severely rationed among the fundamental industries.

The Hungarian Government found itself faced with a Budget deficit of \$17,200,000. The principal items of expenditure were the upkeep of State administration (\$45,100,000); State Railway deficit (\$11,346,000), and interest on debts (approximately \$4,650,000). As in the case of other countries with depreciating currencies the taxation, though frequently raised, had not been able to keep pace with the ever increasing expenditure in local currency. The deficit in running expenses was being met by the issue of more paper money. In addition, there was an adverse Trade Balance of over 40 per cent.

As regards reparations, a special Committee of the Reparation Commission had been sent in 1922 to Budapest and had reported that Hungary should be able to pay a moderate amount in reparation. The Committee's report was superficial and far from convincing in its conclusions. The Reparation Commission itself, therefore, took no action on this report and the Hungarian Government were entirely in the dark as to what was likely to happen.

At the end of February the Director General of the Central Institute of Hungarian Banks visited London. There, at the request of the Hungarian Government, he endeavored to raise a short term loan of about £2,000,000, offering as security the total export of Hungarian flour over two or three years? Negotiations were formally confined to the Bank of England and the group responsible for the Austrian loan (Rothschilds, Baring, Schröder, etc.). The Hungarian Government were anxious to do what they could for themselves without appealing for help to the League of Nations and other outside sources.

The London bankers took the view, that while the security was fairly sound, they were not prepared to make any loans to Hungary on account of the uncertainty of her political and reparation position. They felt that Hungary would require a large long term loan in order to get on her feet, and that it would be useless to give her a short term loan for immediate expenditure until she was in a position to discuss a long term loan. In other words, they were not prepared to touch Hungary until the Reparation Commission had taken satisfactory action as to freeing the assets - as in the case of Austria - which would be required as security for any long term loan. They also took the posi-



tion that loans for Hungary could only be obtained through the intervention, and expended under the supervision, of the Finance Committee of the League of Nations. The British Treasury and the Bank of England strongly supported this attitude, promising assistance both as regards the reparation difficulty, and as regards obtaining loans eventually through the League. The net conclusion of the London enquiries of the Hungarian financial representative was that it was impossible to float any Hungarian loan without the suspension of reparation liens, then only through the League, and probably only by obtaining the guarantees of foreign Governments, as in the case of the Austrian loan.

On April 22, the Hungarian Minister in Paris asked the Reparation Commission to give a hearing to Count Bethlen, Prime Minister, and Dr. de Kallay, Finance Minister of Hungary. In this Note the Minister formally applied for the suspension of liens on certain Hungarian assets and revenues required as security for a long and a short term loan, described the grave financial position of Hungary, and outlined the Government's own plan of reconstruction, including economies in Administration, reduction by 30 per cent of State employees, creation of a Bank of Issue, increase of taxation, and abolition of Devizen Zentrale and other artificial restrictions.

On May 4 Count Bethlen and Dr. de Kallay appeared before a joint meeting of the Commission and the Hungarian Section. (Count Bethlen's speech is attached). A complete analysis of Hungarian Government revenue and expenditure (covering 67 printed pages) was submitted by the Finance Minister, who applied for the right to raise a short term loan of 40 to 50 million gold crowns and a long term loan of 550 to 650 million gold crowns. The Commission was asked to agree in principle to raise temporarily the reparation charge on the Customs and Tobacco Monopoly revenues and such other revenues as might be needed as security for the short and long term loans and for the capital of a Bank of Issue, the Hungarian Government to submit to the Commission definitive proposals at a later date before the Commission definitively granted the postponement of the reparation charges. The Finance Minister stated that without the possibility of obtaining a long term loan he saw no hope of obtaining a short term loan. With the two loans he would be able to stop the note press, stabilize the currency and, within five years from the issue of the loan, balance the Hungarian Budget and assure the service of the long term loan. [see 1011.2]

The Commission were asked, in the event of their granting the Hungarian request, to take such action as might be necessary to obtain the acquiescence of the Powers holding Relief Bonds in the suspension of their prior liens on Hungarian revenues.

Count Bethlen stated that "if the Commission so desired the Hungarian Government would be glad to avail themselves of the advice and assistance of the Finance Committee of the League of Nations in respect of the financial proposals for reconstruction and in regard to the negotiations for a long term loan".

On May 11 the Hungarian Section considered two proposals arising out of this application. The Italian Delegation, supported by the British, proposed:-



That in principle the Commission should agree to raise for 20 years the reparation charge on revenues needed as security for the loans, these loans to be negotiated and supervised by the Finance Council of the League. Hungary to execute with the utmost regularity current deliveries of livestock and coal; to conclude the restitution forfeits as quickly as possible, and to perform promptly and willingly all the provisions of the Peace Treaty other than those which contain financial obligations.

The French, supported by the representatives of the Succession States, proposed:-

"Not to oppose in principle" the Hungarian request, but that the charge should only be temporarily raised for "absolutely definite loan schemes which the Hungarian Government might submit for the approval of the Reparation Commission and a fixed part of which would be assigned to reparation"; necessary guarantees and facilities for supervision being given to the Commission. A Mission to be sent to Hungary immediately to examine the financial and economic situation of the country. Hungary to be required to execute with the utmost regularity payment of the costs of the Armies of Occupation, current deliveries of livestock and coal, to conclude the restitution forfeits as quickly as possible and to execute promptly and willingly all the provisions of the Treaty other than those containing financial obligations; the Reparation Commission when subsequently deciding upon concrete proposals submitted for loans to take into account the manner in which Hungary had discharged her obligations.

The Italian proposal was defeated by 5 votes to 4 - the French, Polish, Serb-Croat-Slovene, and Czecho-Slovak Delegations voting against it. The French proposal was carried by the same votes. The Roumanian delegate was without instructions and did not vote. The Greek delegate was absent.

On May 23rd the Reparation Commission by the casting vote of the Chairman, M. Barthou, accepted the foregoing French proposal. The Common Delegate, M. Mrozowski, on behalf of the Roumanian, Serb-Croat-Slovene and Czecho-Slovak Governments, put on record the following "observations":-

- 1) A great part of the loan to be applied to reparations.
- 2) Guarantees that Hungary will respect the military clauses of the Treaty: notably disarmament.
- 3) A loyal attitude to the Treaty by Hungary in regard to her neighbors, notably those of the Little Entente. Hungary to abstain in the future from all unfriendly acts, such as irredentist propaganda, illegal and unjustifiable arrests of Little Entente subjects and their detention in Concentration Camps; provocation to frontier conflicts, etc.



4) In no case the sums arising from Loans to be used to cover the cost of Hungarian armament or propaganda. To this end and effective participation in the control of the sums lent to Hungary to be assured to Roumania, Serbia and Czecho-Slovakia.

The Reparation Commission requested the Finance Service to submit proposals regarding the programme of the Mission to be sent to Hungary.

On June 14 the Hungarian Government presented to the Allied and Associated Governments represented on the Reparation Commission a Note urging a reconsideration of the Commission's decision. They declared that so long as a "fixed part" of any loan must be "assigned to reparation" it was impossible for them to submit any definite loan proposal to the Commission and quite impossible to hope for any loan. The decision of the Commission also operated to prevent them from obtaining the assistance of the Finance Committee of the League, therefore they were barred from the money markets of London and New York. Further, under the decision of May 23, if reparation had to be paid out of loans, all relief loans, having a priority over all reparation payments, must first be liquidated, - in which case Hungary would have to pay about £600,000 before she could avail herself of the proceeds of any loan or assign any part of it to reparation. Since Count Bethlen made his application to the Reparation Commission the situation had become steadily worse and it was only possible for the Devizen Zentrale to supply the fundamental industries with a small fraction of the foreign exchange needed to meet their foreign commitments. A sum of 14 million Swiss francs was overdue to be paid by the State Railways to other countries; 6 million French francs to France as interest on funded debts; 2.8 million French francs for the liquidation of the Austro-Hungarian State Railway; 2 million gold francs for the liquidation of the Southern Railway, as well as payments due under the Franco-Belgian-British Clearing Office arrangements. These were among the most urgent payments. Without the possibility of obtaining foreign loans to meet these and other payments it was impossible for the Government to continue to accept responsibility for preserving order in Hungary. A copy of this Note was sent to the Reparation Commission.

On July 3 the Hungarian Section considered the report of the Finance Service, which after outlining the matters which the Mission should investigate in Hungary, recommended by a majority that it would be impossible to arrive at practical results unless the Mission also got into touch with the possible lenders; unanimously declared it was very important the Mission should be small and have at the head, or possibly as the sole member, a person of high reputation and undeniable competence who would be able to report on Hungary in a very short time; and that the Mission should investigate the question of the amount of reparation Hungary could pay.

The French and Succession States objected to the recommendation that the Mission should get into touch with the lenders and as to its composition. By the votes of this majority the Finance Committee's report was therefore amended and forwarded to the Commission. The British and Italian representatives abstained from voting.

On July 6th the Commission considered the amended report.



After considerable discussion no decision was reached and the question was adjourned sine die. If by another casting vote decision it was decided to send a Mission to Hungary composed merely of unknown officials and without the right or necessary standing to get into touch with the probable lenders, the British Government and presumably the Italian Government would refuse to nominate any representative.

On June 29th the British Government had sent a Note to Paris, Prague, Belgrade, and Bucharest instructing the Ministers in these capitals to make strong representations for a repeal of the decision of May 23. The British Note supported the Hungarian contention that it was impossible to obtain loans so long as the proviso remained that reparation must be paid out of such loans and so long as the co-operation of the League was not obtained. The political guarantees desired by the Little Entente would best be secured by adopting the same machinery as was employed in the case of Austria.

Simultaneously representatives of the Czecho-Slovak and Roumanian Governments who came to London in search of loans were informed that neither the British Treasury nor the Bank of England would favorably consider any such proposals so long as their respective countries "deliberately obstructed the financial and economic reconstruction of Hungary". "It was too dangerous to encourage British investment in countries next door to an economic volcano - Hungary - particularly when Hungary's neighbors were precipitating an eruption". No money was forthcoming for either Government. A small issue, made by an unknown London house, for a Czech armament concern (Skoda) was a complete failure.

Both the French and Serbian Ministers in Budapest, as well as large Czech and Roumanian financial interests, asked Sir William Goode if he could suggest some bridge between the decision of the Reparation Commission and the attitude of London. On July 12th Goode saw Dr. Benes in London and proposed, as a possible basis of compromise, that instead of the Reparation Commission sending a Mission to Hungary, the Finance Committee of the League should be asked to report upon the financial situation of that country and to suggest the method of procuring loans. If Dr. Benes was willing to propose and the Little Entente willing to agree to that, Goode undertook to do what he could to get it accepted by the British and Hungarian Governments. The decision of May 23, in so far as it required reparation to be paid out of any loan, would then stand unaltered. The British and Italians would doubtless record reservations to the effect that in their opinion no loan could be obtained under such a proviso, and the Little Entente would be equally free to record again their observations as to special control over expenditure for military and propaganda purposes. But there would be no revision of the most disputed point of the decision; merely a change in the machinery to give it effect. There could be, assuming France's objections would disappear with those of the Little Entente, a unanimous vote of the Commission inviting the League to undertake the investigation previously assigned to a Special Reparation Mission, always provided the League were prepared to do so in the face of the decision of May 23 and in face of the reservations made by the various parties to the invitation.



A meeting was arranged between Dr. Benes and Count Bethlen, probably at Vienna, prior to the Little Entente Conference at Sinaia on July 29th. This should help to straighten out things and create a good impression and, perhaps, a better feeling.

We are inclined to think that the British, Italian and Hungarian Governments would agree to the proposal if put forward to them by the Little Entente and that if France then agreed, the League Finance Committee will investigate and report upon the Hungarian position. It is, of course, certain that the League will refuse to enter into negotiations for a Hungarian loan unless all reparation payments are suspended for the duration of the loan, but before that stage is reached conditions may have changed and an enquiry by the League instead of by the Commission may be of help.

Meanwhile the Hungarian Government recently borrowed 10 million Swiss francs from the Budapest banks, who on their joint and several guarantee, managed with great difficulty and at high interest to raise this sum in Switzerland. These 10 million francs were used to refill the almost empty coffers of the Devizen Zentrale. At one time the total foreign currency in the country was not more than one million Swiss francs. The fall in the Hungarian crown has temporarily been arrested by the buying of crowns by foreign importers in anticipation of Hungarian crop purchases; the prospects of an excellent harvest, and by the fear or hope, be it bear or bull, that out of all these complex negotiations with the Powers and the Commission something tangible, as in the case of Austria, may result.

The Hungarian crown on July 20th 1923 was quoted at 9,780 to the dollar as compared with 2,174 in January (unofficial quotation is now about 13,700); and the circulation on July 7 was 169 milliards as compared with 79.6 milliards in January.

The foregoing sums up the situation to date as we see it. In our judgment due to the political factors involved, the discussions preceding a final authorization to Hungary to float a short and long term loan will be drawn out for some months and not finally disposed of until after a settlement to the Ruhr question. In the meantime the Hungarian financial position will be growing gradually more difficult. Obviously no outside money markets would or should advance one cent to any "Hungarian loan for re-construction" if any part of such loan is to be applied to reparation payments. As far as we are concerned, before the final solution is reached there will be a request from Hungary for postponement of interest and amortization payments on account of the Hungarian Relief Bond now held in our Treasury. Favorable action on such request would, we judge, require Congressional action. Such Congressional action even if recommended would, in all probability, have to be preceded by some administrative settlement of the question concerning the failure of the Hungarian Government to meet the service of our Relief Bonds pari passu with payments already made on the same account to European Powers on similar Relief Bonds held by them.

JAL/BH  
1 encl.

Faithfully yours,

*John A. L. Jr.*

The Hon. Benjamin Strong,  
New York City.



JAMES A. LOGAN JR.

Paris, 18 rue de Tilsitt.  
27 July, 1923.

PERSONAL & CONFIDENTIAL.

My dear Ben:

With our letter of July 13th, we enclosed a copy of Mr. Baldwin's speech in the House of Commons on July 12th in which he stated that he proposed submitting a British draft reply to the German note to various Allied Governments for their comment. This note has been received by these various Governments and it is also understood that Washington has been furnished a copy. Up to date the Allies have not submitted their comments. Definite replies are forecasted in the press within the next few days.

It appears to be of interest to refer to more important public utterances of the various Allied Prime Ministers since the Baldwin speech of July 12th.

On July 14th, Mr. Poincare, on the occasion of the dedication of a monument at Senlis, said in effect that when France insists that after four years time a Treaty signed by 28 nations shall not be discarded as useless and out of date, the reply made to her is that Europe is ill and must be restored and the primary necessity for this restoration is the prevention of Germany's collapse, and that therefore France must "make concessions in the common interest". He said France has not ceased to make concessions since the Peace and that "he added finally that she has no desire to see Germany collapse because a creditor does not wish for the decomposition of his debtor even when this debtor is like Germany able to so promptly re-establish his position". He then went on to say:

"Why then have we maintained that we have reached the end of concessions? It is because up until the present time we have stood all their costs. The Treaty promised us reparations and damages and the guarantee of our security, but what has happened? For our security we have been given on the Rhine a temporary right of occupation which is to terminate exactly at the moment when Germany shall have regained her strength. We were at least promised, as a support for this situation, a pact of aid which is not of the least military value but which would have the virtue of enforcing political and moral caution on Germany's part. These promises have not been kept and nothing has been offered in their place. The substitute pact proposed by Mr. Lloyd George was for a shorter time than the occupation and contained no precise engagement for military co-operation. It would not even deceive the eye.

We have been no better treated as concerns reparations. In the Commission which has been formed by virtue of the Treaty of Versailles, we are in the minority, although we should have the



"majority of interests. Endeavors have no less been made during the past four years to unseat this Commission to replace it by international finance committees, which is to say, to endeavor to marshall against us interests opposed to ours. The Treaty prescribed the conditions under which the Commission should fix the German debt. A pretence was made of respecting these conditions, but the debt was hardly fixed when there was imposed upon us in one of those Supreme Councils where we have always left behind a few of our rights, a Schedule of Payments that the Commission reluctantly ratified and which reduces the amount of our credit in undetermined proportions. We then accepted this schedule of payments as an international convention, as an engagement of honor entered into with us.

A few months hardly passed that the evaluations upon which the Allies had agreed were thrown into question. As certain of our friends seemed to have no other thought than to lighten the German debt, and as they were themselves our creditors, we said to them: "There are three categories in the Schedule of Payments. Leave us our part in the first two. We will make use of the third against Germany only in the measure that our creditors ask us to pay our debts". We were found too exigent. We were reproached with not sparing Germany, and with exposing her to a disaster of which all the other peoples would submit the reaction.

And nevertheless has not Germany been so well spared during three whole years that she has been permitted to default in all her obligations, and we have been compelled to pay, ourselves, from our resources one hundred milliards which she owes and which she has not paid. Has she not been tolerated to reconstitute her merchant marine, to develop her canals and her railroads, to enrich her great industries at the expense of her creditors? An equal firmness on the part of all the allies would have without doubt triumphed over her persistent bad faith. But Germany has naturally speculated on the divergences of views which she has altogether created. She thought herself encouraged in the attitude she had taken, and the moment arrived when we had no other recourse than that of coercion and the taking of gages.

It has not been because of us that the necessary measures should not have been taken in common by all the allies. If it had been thus, all the chances are that Germany would have given in immediately. We have had to act alone with the active co-operation of Belgium and with the partial collaboration of Italy. Instead of lending herself to the exploitation of the gages, Germany has organized resistance and has forced us to accentuate our pressure. Are we thus responsible for the unrest which results? And is it not from those who violate treaties, and not from those who claim their observance, that an accounting must be asked for the events rendered inevitable by the disregard of right?



"What would have happened on the other hand if we had remained with our arms crossed? Does anyone imagine that our weakness would have realized the miracle of bringing Germany to reason, determining her to put her finances in order, to stabilize her money, and to cause to disappear from the center of Europe a focus of economic decomposition? For three years the Allies have pursued this dream, and for three years the evil has been increasing. If we were not in the Ruhr, Germany would have continued to slide to the abyss which she had herself dug but we would have had our hands empty, while now we have gages of which we are the masters and will not let go.

Our resolution has been dictated by the vital interest of France: it cannot therefore incommode the Allies who desire themselves, also, that France shall live; and whose interest considered in perspective is not distinguishable from ours. Gentlemen, I believe I may flatter myself to have been always a faithful partisan of the Franco-British alliance. Before the war, at a time when there were in France a few men who favored more or less openly a rapprochement with Germany at the risk of bringing us thereby to an official consecration of the Treaty of Frankfort and the definite abandonment of Alsace and Lorraine, I was always of those who recommended the contrary: the close union of the two great free nations of western Europe. It was at my request that in 1912 under a cabinet which I presided there were exchanged between M. Paul Cambon and Sir Edward Grey, the letters which sealed the entente and prepared the alliance; and the visits which I exchanged in 1913 and 1914 with His Majesty the King George V were in the realization of the same task to which I am passionately attached. No one, therefore, would be more pained than I if a shadow however faint, should for a moment obscure a friendship for which I have the conscience to have worked usefully. But this friendship I have always conceived as leaving to the two peoples their independence of opinion and their frankness of speech, as destined to conciliate their interests and not to subordinate one to the other, as finding its best support in a constant effort of reciprocal comprehension and in a mutual respect and equality. I cannot believe that this, to use an expression of a distinguished English publicist, gives evidence of a too rigid honesty. Honesty has no need of qualification: it suffices to itself. We know that our Allies are as honest as we, and that is why we are assured that upon reflection, and before the evidence of the facts, they will finish by saying that we are right.

To watch over the execution of treaties and the respect of sworn faith, is not only an affair of honesty but an affair of wisdom and of prudence. On the morrow of a universal war, which has had its repercussion in all parts of the world, which has overturned Europe to its depths, which has created new states, extended or contracted old states, awakened everywhere the spirit of nationality, and which was not ended save by the penible elaboration of a whole series of treaties signed at Versailles, at Trianon, at Neuilly, at Saint-Germain, to disturb one of these diplomatic acts, would be in advance to disturb all the



"others. The favors accorded to the most powerful of the vanquished nations would be inevitably claimed by the weakest. Through the breach thus opened would quickly pass other proposals which would throw into question the entire arrangement of the peace, would destroy the new status of central Europe and would menace our friends of Czecho-Slovakia, of Roumania, of Yugo-Slavia. Far from facilitating the continental reconstruction, the ignoring of solemn engagements would quickly bring about disorder and chaos. France in defending her rights, defends those of her Allies. In maintaining the conditions of the peace, she is maintaining peace itself and working for humanity".

The Senlis speech attracted much attention, it being generally assumed as Poincare's reply to the Baldwin speech. In view of the definitiveness of the position taken and its unconciliatory tone, the British press showed irritation. However, two days after the Senlis speech, the French Foreign Office issued a semi-official communique to the effect that M. Poincare's utterances were entirely disconnected from Mr. Baldwin's speech and this had a somewhat calming influence on the situation. We feel that the semi-official communique of the Quai d'Orsay had foundation in fact and that the Senlis speech was largely dictated by French displeasure at what Mr. Lloyd George has recently been saying and writing and that it was not a reply to Mr. Baldwin's speech. The Baldwin speech was conciliatory in tone and terms and it would have been an unwarranted and tactless act on M. Poincare's part to have made any such reply to it as that of the speech at Senlis.

Mr. Poincare on July 22nd, 1923, spoke at the dedication of a monument at Villers-Cotterets. In his speech he avoided all reference to the British draft note. He however replied directly to Lloyd George who, speaking recently before the House of Commons, had said that it was amusing to note that France, while accusing Germany of huge expenditure for internal improvements - canals, railways, etc. etc., should have spent enormous sums herself on what could be called the reorganization of her devastated regions rather than their reconstruction. Lloyd-George stated that France had made capital out of one devastated province to the extent of completely reorganizing her northern industrial territory and English industrials would now find there improved railroad facilities, deepened canals and factories re-equipped with the most modern of devices. He concluded by a warning that a settlement of the Ruhr and reparation questions would not remove the difficulties facing England and that on the contrary their solution would find Great Britain faced with two competitors better equipped at the present time than England.

Poincare accused Lloyd-George in these statements of "iniquitously confusing the positions of France and Germany". He asked whether German expenditure (commercial fleet - railways, new canals, etc.) since the war had been for reconstruction purposes or for reasons of industrial improvement. He asked also whether Germany used available funds for these works or whether she effected them at the expense of Allied credit. As to Lloyd-George's statement regarding the installation of modern machinery and appliances in



restored factories, Poincare demanded whether it was not as unjust to blame France for not having rebuilt her factories after the old models as to expect her to add to her ruin the prohibition of all progress. He made reference to the German publications treating with the various industries to be destroyed and the detriment that this organized destruction would prove to be to French industry vis-a-vis German industry. He added that Lloyd-George had these publications in 1919 when the Treaty was drawn up and he questioned whether it is possible that he had read them and forgot them. In referring to war damages, M. Poincare stated that labor was obliged to emigrate during the reconstruction period and that "in certain localities emigrants are counted by thousands". He also said "War damages suffered by spindles for combed wool and carded wool are very important. Germany will be in a position to resume her full capacity of production for woolen spinning at least one or two years sooner than France". He then went on to say "No matter what may be the vitality of France, her recuperation thus retarded and dulled by German intent does not menace the economic power of any other nation and our friends would be better prompted in choosing less remote subjects for their disquietude. Why did they not go into the Ruhr with us? They would have understood better what are the real dangers of tomorrow. They could not fail to find in the redoubtable organization of German industry real reasons to disturb them".

The French Minister of Public Works, M. Le Trocquer, made a statement on July 14th which has attracted comment in the Press. He said in brief:

"Before the occupation the Ruhr furnished us from 300,000 to 350,000 tons of coal per month, little compared to our monthly needs of 5,000,000 tons. French national coal production was 2,700,000 tons per month in 1922 and has now increased to 3,500,000 tons, or an increase of 800,000 tons per month. By increasing the Saar output by 100,000 tons per month this gives a total monthly increase over 1922 of 900,000 tons. He considers, therefore, that although the Ruhr now gives only 225,000 tons per month, the situation is not much less satisfying, for by effort France by her own mines can hold her own as long as may be necessary and from now on any increased output of the Ruhr will permit France to reduce imports. Without counting the putput of the coke ovens of the metal industry, the tonnage distributed to consumers last year can be estimated at 380,000 tons per month. To-day the monthly average is 511,000 tons, a 50% increase over 1920 and 1921. I have personal reasons for looking confidently to the future as far as coke is concerned. Speaking modestly I can state by absolute certainty that as long as Germany's attitude obliges us to remain in the Ruhr we will maintain without variation the coke tonnage distributed to our industries." He then said that these figures show that industrially France is completely at her ease and while her blast furnaces are being re-fired, her pressure upon the Reich is resulting in the German metal industry being placed in a miserable position. "The game is won for us because the industrial power of France has increased and has become more independent over a difficult period during which we were obliged to make Germany capitulate. We have seized metallurgical products, precious gages whose



"value reaches many hundred of millions of gold marks. We have not yet realised these, but this is a real wealth which is increasing every day. Add to these seizures of marks requisition of products, such as timber and dyestuffs and you will understand that we have the right to say that we have in hand genuine productive guarantees. Besides there are the railways, they constitute a guarantee singularly remunerative, for no railway in Europe is so productive as the Rheno-Westphalian line. The number of passengers has increased ten-fold in two months, traffic has gone from 29,000 to 52,000 train kilometres a day. Again we can say we have won the game. I resume, we have no cause for haste because our situation in fuel is excellent and we are going to reduce our coal imports. The situation in the occupied regions is getting better daily. If they will only leave us free to work, we are headed for victory. Nevertheless, no matter what they do, nothing will discourage us. We wish to make Germany pay and to have genuine and solid guarantees in hand. The most difficult part has already been done".

Taking up Le Trocquer's statement point by point, the following are the facts.

Before the occupation of the Ruhr, taking the average for the year 1922, Germany furnished France 896,000 tons of coal and coke per month, (coke in terms of coal:- 3 tons coke = 4 tons coal) and not 300,00 to 350,000 tons. The monthly needs of 5,000,000 tons include coke; besides the figure is rather higher than the real consumption for 1922. Average production of France (including Alsace-Lorraine, but excluding the Saar) in 1922 was 2,610,000 tons per month. For the first five months of 1923, the average production was 2,897,000 tons. (We have no later figures, but can't see any reason to believe that there would be a jump of over 600,000 tons per month in a month and a half). These are French official figures, compiled by Mr. Le Trocquer's office, as are the following regarding the Saar. France received from the Saar in 1922 an average of 294,500 tons per month. In the first five months of 1923, she received an average of 117,000 tons per month. However, there was a strike in the Saar, but deliveries began to increase in May from almost nothing to 87,300 tons for that month. (We have no figures for June or July, but it is difficult to believe that deliveries have already exceeded the monthly average of 1922). Mr. Le Trocquer is obviously using figures for coal in one place and coal and coke together in another, thus establishing absolutely false comparisons. In this note coal and coke are counted together. For the first three months of the occupation of the Ruhr deliveries fell to almost nothing. In April they began to pick up a little. The average deliveries for February, March, April, May and June amounted to 238,900 tons per month. The deliveries for May and June were 372,400 tons and 452,770 tons respectively (coke in terms of coal). I see absolutely no reason to believe they will be greater in July; in fact I doubt if they will be as great. The June figure is about 50% of the 1922 average. In 1922, France imported an average of 428,000 tons of coke per month, nearly all from Germany -- reparation account. In January 1923, she received from Germany 262,700 tons, shipped in December and January before the occupation. In February, March, April and May she received from abroad an average of 228,100 tons per month, of which 86,500 tons per month from Germany. Her imports of coke have been princi-



pally from Great Britain, Belgium, Holland and the United States. (In May she received from the U.S. 102,200 tons of coal and 76,700 tons of coke). The coke receipts from Germany in May and June 1923 were 173,900 tons and 191,400 tons respectively. We have no figures immediately available as to French coke production, but it is obvious that Le Trocquer's figure of 511,000 tons per month over and above French production is nearly double the reality, unless imports from England and the United States have been enormously increased since June 1st. France has been increasing her imports of coal to a large extent (particularly from England and the United States). The figures on the following table show these increases:

Importations of English and other coals into Germany,  
France, Italy and Belgium.  
(In thousands of tons -- Coke in terms of coal.)

Month	GERMANY		FRANCE		ITALY		BELGIUM		
	English Coal	Total Imports	English Coal	Total Imports	English Coal	Total Imports	English Coal	Total Imports	
		*		X		X			
August 1922	1,104.5	2,018.1	869.4	1,477.6	435.6	458.8	238.3	x	
September	1,128.1	2,107.6	895.9	1,622.2	466.0	485.4	276.4	x	
October	1,096.1	2,224.8	1,007.6	1,625.6	523.4	551.4	298.4	x	
November	702.3	1,539.7	1,209.3	1,925.0	593.6	x	517.4	x	
December	442.7	1,170.9	1,327.4	2,055.5	551.9	x	577.6	x	
January 1923	645.4	1,505.9	1,205.6	1,920.6	542.1	x	426.9	x	
February	1,222.5	2,035.7	1,360.4	1,928.4	675.3	x	424.5	x	
March	2,266.4	3,371.3	1,812.1	2,150.7	788.2	x	610.9	x	
April	1,915.2	x	1,750.0	x	2,107.0	654.1	x	699.3	x
May	1,900.0	x	1,850.0	x	2,416.0	686.6	x	708.3	x

x Estimated figures based on British export reports.

X No reparation deliveries are included in the total imports. In the case of France most of the imports other than those from Great Britain came from the Saar and from Belgium.

\* German imports include deliveries from Polish Upper Silesia.

There will be noted a rather striking increase in the French and Belgian imports from Great Britain for the three months preceding the Ruhr occupation.



Obviously, the intent of Le Trocquer's statement was pure propaganda. L'Oeuvre had an article on the "Strange Calculations of M. Le Trocquer" and similar articles appeared in other French and British papers.

On July 26th, Mr. Baldwin, when speaking before the Glasgow Conservative Club, made the following statements:

"Alluding to foreign exchanges, Mr. Baldwin said that the first essential step to be taken to stabilize foreign markets was the settlement of the reparation question with Germany."

Referring to the Ruhr occupation, he said:

"The kind of occupation which is at present in force in the Ruhr is exactly the same in international trade as if you inserted the blade of your penknife into the works of your watch. The whole international trade is a mechanism of extraordinary delicacy. Its function before the war was in such perfection and with such absence of friction that few except those who occasionally had especial knowledge of it were aware of its existence. People are learning now at a gigantic price the elements of economics in foreign exchange. The effect is that throughout Central Europe the currency has gotten into such position and exchanges are of such a nature that there will be increasing difficulty in making arrangements for payments abroad and conducting the elements of international trade. It is not so much that we have suffered owing to the confusion in Central Europe as that we are beginning to suffer. Unless an end is brought to the existing state of things the time will come when it will be quite impossible for repayments to be made from Central Europe for their import trade, with the obvious result that there will be a corresponding shortage of the credits available in the reverse direction. You will get a check, an increasing check and a break in the whole of the international trade that used to be done both ways in that direction. The obvious result will be that the greatest suffering will accrue to countries like our own that are dependent not only upon their general trade but ultimately and in the chiefest degree on their export trade. Until some form of financial stability can be obtained in Germany there will be no reparations for anyone.... What the results of our first efforts will be to bring about the settlement of reparations I cannot say. I would only repeat here that no effort on the part of the government will be spared to bring about such a settlement....."

As Washington has a copy of the British draft reply to the German note, it appears unnecessary to make any detailed reference to its contents as confidentially communicated to us here. On the whole, we are informed that the proposed British reply was fairly favorably received by M. Poincare, However, M. Poincare was irritated by the rather casual implication of Great Britain to stop "passive resistance" providing the balance of the British terms were accepted by the French. M. Poincare felt that if the British were



in a position to stop "passive resistance" it was clearly their duty to do it and not incumbent upon them to attach terms to that act. The fact that the British proposal contained no direct reference to interallied debts except providing that such questions could be taken up at a later date was displeasing to M. Poincare and also to the Italians.

The French reply to the British note is understood to be conciliatory in tone. It is understood to express courteous agreement with the British views as to "the necessity of economic stabilization", "normal trade relations" etc. On specific points it expresses disagreement and on other points requests additional information. In other words, the French reply is obviously framed to prevent any rupture of Franco-British relations and to keep the question in negotiation until France gains her Victory by forcing Germany on its own initiative to give up passive resistance.

The Belgian reply on the main points, it is understood, will not vary much from the French reply, viz. no conversation with Germany until passive resistance ceases and evacuation of the Ruhr only as German payments are made, it is asserted there is no divergence between the French and Belgian notes. Belgium, however, is understood to be ready to make concessions on the border question of reparations. Belgium claims that her position is different from France's "in that she is not burdened with debts to Great Britain and the United States" and therefore not concerned like the French to keep the C bonds as an effective part of Germany's liability until it is known precisely how much will be demanded from France. Altogether Belgium has no reason to object to the nomination of a commission of experts and to a certain extent is committed to technical measures of control of German finances and a system of economic guarantees which were sent to the Allies. The position of Belgium is most difficult. From all sides we gather that the Theunis Government feels forced to follow the French lead, but is using all its influence to prevent any Franco-British rupture. We understand that M. Theunis is continuing to exercise every pressure to bring about a meeting between Mr. Baldwin and M. Poincare. M. Theunis has proposed that such meeting be confined to M. Poincare and Mr. Baldwin, feeling that by eliminating himself from the meeting it would furnish an excuse for eliminating M. Mussolini, whose presence at such a meeting in the present extremely delicate position, he considers harmful.

Faithfully yours,

*J. A. L. Jr.*

JAL/DS

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



JAMES A. LOGAN JR.

Paris, 17 August 1923.  
18 rue de Tilsitt.

Personal & Confidential.

My dear Ben:-

We enclose copies of the following inter-Allied correspondence concerning the development of the reparation controversy during the period June 13 to August 11, 1923, as reproduced in the Press and collected from various sources. This correspondence is based on the German proposal for settlement of June 7, 1923, addressed to the Governments of the United States of America, Great Britain, France, Belgium, and Italy, viz:-

- Annex "A" - The British Note of June 13, 1923, addressed to the French and Belgian Ambassadors in London. Referred to as the "British Questionnaire".
- Annex "B" - The French Note dated June 14, 1923 (but which on account of the Belgian ministerial crisis was not handed to Lord Curzon until July 6), addressed by the French Ambassador in London to the British Government. The French reply to the British Note of June 13, 1923.
- Annex "C" - The Belgian Note of July 3, 1923, addressed by the Belgian Ambassador in London to the British Government. The Belgian reply to the British Note of June 13, 1923.
- Annex "D" - The British Note of July 20, 1923, addressed to the French, Belgian, Italian and Japanese Ambassadors in London. A proposed draft of a reply to be made by all the Allies to the German note of June 7, 1923.
- Annex "E" - The Belgian Note of July 30, 1923, addressed by the Belgian Ambassador in London to the British Government, outlining the attitude of the Belgian Government to the proposed British reply to the German Government (Annex "D").
- Annex "F" - The French Note of July 30, 1923, addressed by the French Ambassador in London to the British Government, outlining the attitude of the French Government to the proposed British reply to the German Government (Annex "D").



- Annex "G" - The Italian Note of August 2, 1923, addressed by the Italian Ambassador in London to the British Government, outlining the attitude of the Italian Government to the proposed British reply to the German Government (Annex "D").
- Annex "H" - The Japanese Note dated August 3, 1923, addressed by the Japanese Ambassador in London to the British Government, outlining the attitude of the Japanese Government to the proposed British reply to the German Government (Annex "D").
- Annex "I" - The British Note of August 11, 1923, addressed by the British Government to the French and Belgian Ambassadors in London, being the expression of the British Government's disappointment at the replies of the French and Belgian Governments. (Annexes "E" and "F").

The British Government has just issued a White Book and the French Government a Yellow Book, which give the full text of the German note of June 7, 1923, and all the correspondence between the Allies up to and including August 3, 1923; in other words, all of the annexes enclosed except Annex "I". As soon as copies of the White and Yellow Books are secured they will be forwarded.

The Cuno Government in Germany fell on August 11, 1923, and was succeeded by the Stresemann Government. The advent of the Stresemann Government has occasioned some optimism in Germany. However, all reports confirm the fact that the internal situation in Germany is critical, and how long the spirit of optimism can last remains to be seen. Rumors are rife of an early attempt being made to separate the Rhineland Provinces from the German State. On August 14, 1923, Dr. Stresemann made a speech to the following effect in the German Reichstag:

"Having paid a tribute to the work of his predecessor, Dr. Cuno, the Chancellor went on to emphasize the Parliamentary character of the new Cabinet. There were, he said, strained relations at home and abroad, and new decisions would have to be taken. There was need for the union of all constitutional parties, and he appealed for that support independently of the party aspects of the new Government. He warned foreign nations not to assume that the present change of Cabinet was a sign of weakness. Just as the new Cabinet had been given the broadest Parliamentary basis of any so far, it should be the strongest in opposition to any idea of the violation of Germany. Its success would depend upon the cooperation of the whole country and while it was not unappreciative of local particularism, fusion into unity was never more necessary than now.



"In a warning passage directed to the Communist benches, Dr. Stresemann declared that those who imagined that the present circumstances gave them the right to combine for the purpose of undermining the constitution would find themselves confronted by the inflexible will of the Government to oppose violence with all its might. The Government had the means and fully intended to use them. It relied upon public opinion to support it in maintaining public order and security, since in a democratic age fights could only be won by public opinion. In parenthesis, the Chancellor extended the same idea to the Ruhr. Hitherto, he said, the entire public opinion of Germany had ranged itself with one accord against the violation of German rights on the Ruhr and Rhine. Had France and Belgium the support of their public opinion to the same degree?

"Dr. Stresemann next went on to refer to the British reply to France. How deep the sense of the injustice done to Germany must be, he declared, when the British Note to France brought this injustice publicly before the eyes of the world in spite of the close relations of the Allies to one another. The passive resistance of the German population had its deepest roots in the consciousness of its just rights, which were now unequivocally recognized by the British Government. And though a solution of the Ruhr and Rhine question was not to be immediately anticipated as the result of these observations of the British Government, they might assume that this manifestation of the British view would not remain without echo in France and Belgium.

"The Government, for its part, was quite willing that the legality or illegality of the Ruhr occupation should be submitted to an International Arbitration Court, and did not doubt that any impartial decision would give back to Germany the control of the Ruhr area. They desired only to return to work in the Ruhr, but work and freedom were synonymous terms. On the day on which control over the Ruhr were restored to them all parties would strive to put an end to the paralysis of this vital nerve of German industry.

"Here Dr. Stresemann reiterated the conditions laid down on former occasions on which Germany would abandon passive resistance - the return of control to German hands, the restoration of Treaty conditions on the Rhine, the release of prisoners, and the repatriation of fugitives. The restoration of normal conditions was also, he added,



"a necessary preliminary to the resumption of deliveries in kind.

"Nevertheless, there could be no greater mistake than to take the British Note as an excuse for political lethargy. They did not and could not know what political consequences would ensue from this Note, or how and when they would be visible. Political activity was demanded of them, but the best foreign political activity that they could develop was order in the conditions at home.

"Turning to home affairs, Dr. Stresemann outlined the measures of taxation and loans for the purpose of reorganizing German finance, and exhorted the country to do its utmost to make the gold loan a success so that the progress of inflation might be stopped. It was the only means by which this could be achieved. He also foreshadowed measures for hastening the dispatch of food supplies to the larger towns, and appealed to the agrarians to increase production. While he was far from regarding the food question only from the point of the consumer, he declared war on all those who should jeopardize the feeding of the people and the restoration of healthy economic conditions.

"In an interesting passage Dr. Stresemann touched upon the demands of the workers for "real wages" with which he expressed sympathy in view of the present developments. But he uttered a warning to those who thought that they could take the flourishing and prosperous Germany of pre-war days as their basis for calculating wages now. If industrial wages were over-strained there was a danger of Germany being unable to compete in the world markets, and therewith would disappear the favorable trade balance upon which depended Germany's ability to meet her international obligations and maintain stable economic conditions.

"This passage brought forth a great storm of protest from the Communists, which Dr. Stresemann mockingly ascribed to their disappointment at the failure of their proposed general strike. In conclusion, he said that it would be the task of the Reichsbank to support the Government in its economic and financial measures, a remark that was taken in a good many quarters to foreshadow a change in the personnel of the Bank."

During the last two weeks the fall in value of the French and Belgian francs has been most marked. Considerable evidence has existed of exports of capital from Belgium, due to lack of confidence in the

Belgian franc which resulted in the adoption of stringent regulations in Belgium concerning the control of foreign exchange transactions. In addition, the Belgian Government appealed to the French Government for support for the Belgian franc. It is understood that certain measures have been taken by French banks to this end, but we have no detailed information as to the character of support given. The most extraordinary articles, which are not distinguished by any love for Great Britain, have appeared in the French Press. It is stated that British machinations in some way account for the depreciation of both the French and Belgian francs. It is pointed out that when M. Poincare took office the franc stood at 52 to the pound; it is now about 83. A decided anti-British feeling is to be felt everywhere in France.

It is reported that both the French and Belgians intend replying to the British Note of August 11, 1923 (See Annex "I"). It is stated that the replies will be separate and that they will be despatched within the next few days. The nature of these replies can be easily forecasted, and will, in our judgment, contribute little towards the desired settlement. They, however, will have the advantage of continuing the negotiations and thus prevent any immediate danger of a rupture in negotiations.

Faithfully yours,

*J. A. L. Jr.*

JAL/AJG

Encls. 9.

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



JAMES A. LOGAN JR.

Paris, 18 rue de Tilsitt.  
7 September 1923.

Personal & Confidential

My dear Ben,

M. Theunis, the Belgian Prime Minister, has been using every effort to bring about a meeting between Mr. Baldwin, who is now at Aix-les-Bains, and M. Poincaré. The French tell us that M. Poincaré expresses every willingness to meet Mr. Baldwin and to talk over a solution based on the premises of the past French position. Sir John Bradbury tells us that Mr. Baldwin considers it useless to have any conversations without some intimation from Mr. Poincaré that the latter is prepared to modify his past position. Under these circumstances all are extremely doubtful of any meeting at this time.

In the meantime the program of the Stresemann Government for stabilizing the mark has evaporated. The mark today is about 40,000,000 to the dollar; in other words, a fall of about 37,000,000 marks since Herr Stresemann took the Government over from Herr Cuno. In a speech on August 31 before the German Congress of Industry and Commerce, Herr Stresemann made the following reference to the internal and external policy of the Reich, viz:

"In the first place he protested against the accusation that Germany has herself brought about her monetary collapse. He would regard the statesman who deliberately adopted such a policy as the agent of a crime against his country.

The Government of the Reich would not hesitate to seize the very substance of German wealth. The Chancellor was confident that the industrial circles, whose representatives were listening to him at that moment, would give their assistance at this juncture not merely under constraint, but in the conviction that such a measure was inevitable.

The Chancellor believed, moreover, that no reform of German finance could be carried through until external problems had been solved. The French Premier had maintained that the occupation of the Ruhr was a necessary means to compel Germany to execute her obligations, which she had hitherto evaded. On the questions of law and equity raised in this connection, the German people, strong in its good faith, was ready to submit to the decision of an impartial tribunal. As to the deliveries so far effected, Germany had recently had the satisfaction of noting that their total amount had been estimated, after an impartial examina-

"tion, at a high figure than the sums credited to her by the Reparation Commission. The Institute of Economics at Washington found, indeed, that from the Armistice up to September 30, 1922, the total of Germany's deliveries in kind amounted to at least 25 or 26 milliard gold marks. The German Government considers that its total deliveries exceed 42 milliard marks. The world was not looking to statesmen for a sterile controversy on the past; the path of the future was the one which would lead the nations to live amicably side by side, and which, in place of the present financial chaos, would bring back that unwritten universal commercial regime which is the basis of international trade.

The last British Note contained some very remarkable suggestions, which pointed to a practical solution of the problem.

Monsieur Poincaré, at Charleville, had also indicated a practical solution as the ultimate object of his policy. The means to this end was to claim concrete pledges by way of security for the German reparation deliveries. On June 10 and 12, 1923, the French Government issued instructions to its Ambassadors in London and Brussels, in which the concrete pledges mentioned were the guarantee of the German railways and of German industry, and the seizure of the German customs.

The principle of effectual guarantees to be given as security for the German deliveries was implicitly recognised in the Memorandum published on June 7 last by the German Government, in which the taxing of German property and industry was contemplated, but, to the Government's great regret, neither the Allies nor any single Allied Power had so far replied to this proposal. They themselves, knew, however, that the offers contained in this Memorandum represented the maximum effort of which the German people was capable. They exceeded, indeed, the value of the guarantees fixed by the Treaty of Versailles, and immediately sacrificed as guarantees the last resources which German private industry could still consderate to its development.

The French Government had made many allusions to Germany's economic strength. We read in the Yellow Book that the true wealth of Germany was not destroyed and that her real resources and tax-paying capacity, which lay in her industry, would remain intact in the years to come. Now, it was a well-known fact that this



"was an overestimate of Germany's economic strength, and, that moreover, the alleged high profits of Germany, as represented by the dividends paid by our joint stock companies, were absurdly low - to take an example, the dividends in the last financial year of the Deutsche Bank did not amount to the price of a tram fare in Berlin. Admitting that there were possibilities for the future development of German industry - and he did not dispute it - it was necessary for the Allies, after accepting the principles of the German Memorandum, to examine, conjointly with Germany, a way to make this last remaining resource the pivot of the guarantees for the German reparation debt.

The present Government adhered to the offers made by the preceding Government. For the freedom of German soil, the safeguarding of her sovereignty, and the consolidation of her position, the Government would not consider it too great a sacrifice to offer, as a productive pledge for the execution of Germany's obligations, a part of the economic wealth of Germany. If the French Government would sincerely renounce its idea of obtaining concrete pledges as guarantee for the German deliveries, after a moratorium, it would certainly be able to find a basis of understanding with the German Government.

But no distinction must be maintained between the Rhine and Ruhr on the one part and the Reich on the other part. The seizure as pledge, even though temporary, of the Ruhr territory and the taking over of the railways in Rhineland and of private property and mines on the Rhine and the Ruhr, upon which documents 23 and 25 of the Yellow Book relied could not be regarded by Germany as a possible basis for the solution of the reparation question.

This particular way of solving the reparation problem raised all the political difficulties as to international relations with which the occupation of the Ruhr and the Rhineland question was fraught.

In Germany, there could be no international settlement of the Rhineland question. The Rhinelanders had, within the framework of the Reich constitution, the right to choose in what form they elected to live within the Reich, and up to the present, to go by the statements of the German elements in Rhineland as a whole, they did not desire to modify in any way their traditional loyalty to the Reich and Prussia.

The measure of Germany's economic productive capacity might be a matter for negotiations and compromise, but the question of the German Rhineland was no matter for compromise,

"but a vital question: for every German worthy of the name and for every German party, it consists of preserving a Reich united within its frontiers.

He noted with satisfaction the French Premier's assurance, in the documents published by this Government, that he was not pursuing any political motive, and had no ulterior aims of annexation. This statement, however, was not consistent with the solutions proposed, so long as the Rhine and Ruhr were, economically and politically, under an exceptional regime, and so long as a barrier was thus opposed to any practical solution which Germany might accept.

If the political motives contained by implication in the notes of the French Government were to disappear before a mobilisation of economic resources, in which the Reich would join with all its industrial strength, the way would then be clear for the practical solution to which the French Premier referred in his speech at Charleville. For the German Government to build on the disunion of the Allies would be a policy of "muddle-through". Germany confined herself to hoping that by means of discussions among the Allies, and also between the Allies and Germany, it would be possible to reconcile the just demands of the creditor States with such possibilities of economic expansion as would ensure to Germany that very right to existence which the French Premier claimed for France.

The Chancellor concluded by pointing out the necessity for solidarity between the nations. In the domain of politics, social and ethical, the war and the revolutions arising out of it have caused serious internal disorders in all the nations. The influences which were at work among the populations were fermented by the state of insecurity against which the entire world was struggling. If the nations could meet in a common aim, that aim should be to preserve the world from further convulsions and to bring about a state of international co-operation and goodwill.

He was proud to assert that the German people were filled with a profound desire for peace, order and liberty. They are now doing their utmost to realise this desire. He hoped for a response to their appeal to those statesmen more powerful than themselves, upon whom they called to restore the old order or things. For the solution of the pressing questions now at issue did not, in the long run, concern Germany alone. The security of the general kultur of the nations was at stake, and in its final choice of a solution Europe would show whether it had decided for peace, progress and civilization, or for ruin and chaos".



I had an informal conversation yesterday with Sir John Bradbury who has just returned from London. He told me that, in the judgment of the British Government, the possibility of getting any cash reparations or any deliveries in kind out of Germany, even provided the latter today "bowed down" to the French, was over for a long period of time. Three or four years' moratorium would have to be accorded, and Germany itself could not be put on its feet (i.e. pay reparations) without preliminary assistance of the London and New York money markets. The intervention of the money markets would first be required to support a stabilized German currency and then loans would be required to balance the German budget. He expressed the opinion that neither New York nor London would, or should, lend support to the mark or make any advances on German budgetary account without the soundest of German securities and the solemn-est of promises on the part of France to refrain from her past policy of interference in German economic and financial life. He said that neither London nor New York would, or should, until their first loans were repaid, advance one cent to Germany on account of reparation payments. He said that the present position of the French was impossible and nothing was to be done with them for the time being. He intimated that his Government intended following a policy of non-interference up until the time when the French would be "forced to pass the hat" at which time France would also be forced to accept certain of the British conditions before the London market would participate.

In Sir John's judgment, the German Government would not be in a position to continue feeding the idle population in the occupied territories for a much longer period. He said that the French theory, that the stopping by the Reich of the feeding of the idle population would force this population back into production and to self-support, was fallacious. Existing stocks of raw materials and working pit-head stocks of coal within the Ruhr had been depleted; it would take many months to re-establish the same; the prosperity of the Ruhr Basin was to a great extent dependent on the prosperity of its economic hinterland - non-occupied German territory. With the hinterland economically and financially demoralized, as would be the case when Germany stopped feeding the idle population of the occupied areas, the French armies of occupation would find themselves for months to come occupying a densely populated starving area, and would have no other option than to themselves feed this same population, the expenses of which would be an unbearable burden in the present French financial position. While not entirely adopting the foregoing Bradbury thesis, there are nevertheless certain points in it which are impressive.

The Commission has just received a confidential telephone communication from M. Haguenin, the Commission's Chief Permanent Delegate in Berlin, to the effect that the latter intends coming to Paris within the next three days to present informally to the Commission "certain considerations which Herr Stresemann has asked him to informally present to the different Delegates". We have no detailed information as to the importance of the Haguenin visit, but it is generally felt that Herr Stresemann has some plan of settlement on which he desires to sound out the Commission. M. Delacroix attaches a somewhat optimistic significance to the Haguenin visit, but ex-

pressed himself as being fearful of the British attitude in the event of the Stresemann proposals containing anything which would be acceptable to the French and Belgians. If anything really important develops from the Haguenin visit we will cable it.

M. Delacroix has just informally and confidentially handed us the enclosed memorandum (Exhibit A) which he said contained his personal views as to a possible intervention of the United States in the reparation question. When he handed it to me he made no reference to my transmitting it to Washington. He did give me the impression that he himself was giving some circulation to the paper. I purposely left him with the impression that my understanding was that it was a paper he had given me which might be of personal interest to me alone.

The salient point of his plan is at the end of the memorandum under the caption "Intervention of the United States". To sum up briefly: M. Delacroix' theme is that the United States Government should itself forthwith set up a body of experts to investigate and determine the amounts and means of collection of its foreign debts. An investigation of this character would in turn necessitate an investigation of the credit sides of the ledgers of the foreign creditors which, in turn, would force a determination of the sums due each country on account of reparations from Germany. Obviously, such determination could not be made without these same experts investigating and passing judgment on the total amount of money recoverable from Germany on reparation account. In other words, under the Delacroix scheme, the impartial American experts would by this indirect method effectively fix the total German reparation bill, at a figure which could not help but be accepted by Europe as an impartial and just finding.

During the last few weeks certain portions of the more conservative European Press have been making references to "a solution" based on the general lines of the Delacroix scheme. I, therefore, take it that M. Delacroix has been doing some "missionary work" on this plan. On the foregoing account, I feel that it is of interest to transmit the foregoing information and a copy of the scheme. While the scheme itself has points of interest, it is obviously unsound and impossible from our American angle.

Faithfully yours,

*John A. L. Jr.*

JAL/AJG  
Encls. 1.

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



JAMES A. LOGAN JR.

Paris, 18 rue de Tilsitt.  
14 September 1923.

Personal & Confidential

My dear Ben,

M. Delacroix has just recently informed me that during the latter part of the week beginning September 7 Herr Stresemann called the French and Belgian Ambassadors in Berlin to a conference, and informed them that the German financial position was rapidly becoming impossible, and that his Government was having great and increasing difficulty in finding the money for feeding the idle population in the occupied areas. According to M. Delacroix, Herr Stresemann said that on the foregoing account he was disposed to consider taking measures to forthwith stop passive resistance provided the French and Belgian Governments would submit concrete demands not infringing on the territorial integrity of Germany. Herr Stresemann stated that he was disposed to offer as an immediate guarantee of good faith on the part of the German Government, and as a partial reparation payment, a 30 per cent share in all German industrial undertakings. According to M. Delacroix, Herr Stresemann explained that due to the precarious political situation of his Government it was impossible for him in the present temper of the German people to himself propose any definite and necessarily radical plan of reparation payments which would necessarily involve a tremendous increase in taxation and remain in control of the German Government. Herr Stresemann therefore confidentially proposed that the plan be formulated and ostensibly forced on him by the French and Belgian Governments. He explained at the same time that he could only preserve his internal position by stopping passive resistance coincident with his acceptance of the proposed Franco-Belgian plan.

M. Delacroix in this same conversation stated that in his opinion M. Poincaré had no definite plan to offer and was reluctant to propose one at this time, as any practical plan which could be proposed would be so far short of the French people's hopes that it would seriously prejudice M. Poincaré's internal French position. In M. Delacroix' view M. Poincaré will probably be forced to await further German disintegration, with the idea that the German Government which might then happen to be in power would be forced as a last resort to unconditionally and formally give up passive resistance without any prior commitments as to any reparation plan. M. Delacroix was far from being optimistic of any fruitful and immediate results being reached in the course of the present negotiations, which have been given so much publicity in the Press.

M. Barthou in a subsequent confidential conversation confirmed the main lines of what M. Delacroix had stated. M. Barthou, however, hoped that the situation would be clarified after the Stresemann speech of September 12 (see below), which had not at the time been made, and the expected reply to Herr Stresemann's speech by M. Poincare at Boulogne on September 13. As a matter of fact, M. Poincare in the speech which he made at Boulogne on September 13 omitted all reference to the Stresemann speech of September 12. M. Barthou now tells us that while M. Poincare was far from willing to accept the Stresemann thesis as outlined in Herr Stresemann's talks with the French Ambassador and subsequently in his September 12 speech, he, M. Poincare, purposely refrained in the Boulogne speech from a public rejection of it as he felt that Herr Stresemann was trying to approach the French point of view, and that a curt rejection at this time would only serve to embarrass Herr Stresemann's efforts for a settlement. M. Barthou stated that in his opinion the Reparation Commission would be called upon within the next few weeks to elaborate a reparation plan. He was worried about the internal German political situation. There are many rumors, and apparently some grounds for the belief, that the Stresemann Government will be short-lived. It is impossible at this moment to make any forecast as to who will take over the Government in the event Herr Stresemann falls and the form of the new Government. On the foregoing account M. Barthou (and probably M. Poincare) is anxious that some basis of conversation be found without delay so that the position of the Stresemann Government can be protected. The French Press in the last few days evidently under the inspiration of the Quai d'Orsay, are referring to the "Poincare victory" as evidenced by the "great concessions" and "path to surrender" evidenced by the recent Stresemann "concessions to the French point of view". This inspired newspaper comment is evidently designed to prepare public opinion to face some new French Government tactics if possible developments in the situation require a change from past tactics.

Sir John Bradbury in a recent confidential conversation expressed himself as being out of patience with both the German and Franco-Belgian positions. In his judgment "Herr Stresemann is much more of a politician than statesman", and that "the Stresemann effort today is to effect a France-German line-up against the British reparation interests, as well as against all outstanding interallied indebtedness". Basing his arguments on economic principles, he ridiculed the practical reparation payment value of the German 30 per cent. offer of participation in their industry. He also ridiculed any other form of reparation payments that the German Government would be able to effect in the immediate future. He restated his hope that the British Government while taking the position of sympathetically approving all efforts at direct Franco-German negotiations and agreements would nevertheless hold to the past thesis: that in the end Germany can only be protected from financial and economic chaos by the active intervention of London and New York banks in support of a stabilized German currency and in a loan for balancing the German budget. In his opinion, neither support nor the loan would be forthcoming unless based on the soundest and most business-like premises. In his judgment, France would finally be forced



to accept this basis, and then progress could be made. He was, however, extremely pessimistic of the ability of the present German Government to hold out and was fearful of the social and economic consequences which might follow if the extremely radical German elements were to take over power in Germany on Herr Stresemann's fall.

As concerns the meeting between Mr. Baldwin and M. Poincare which is now scheduled for September 20th or 21st in Paris, Sir John Bradbury stated that this meeting was in no sense of the word "official", that there were no commitments on either side to discuss any of the outstanding questions, and that the meeting would be, therefore, purely "social" in character. It is assumed that those responsible for arranging the meeting compromised on the "social" form in the hope that by bringing the two Prime Ministers together on this basis there might be a chance of some constructive results, notwithstanding the tenacity with which each holds to his past position, as reported on the first page of our letter of September 7th.

The following is a summary of a speech made by M. Poincare on September 9th, 1923. This speech followed the conversations of the French Ambassador in Berlin with Herr Stresemann as reported on the first page of this letter.

"There appear to be abroad, and even in France, people who find a little wearisome, the repetition of these discourses of which the object never varies and of which the conclusions remain unchangeable. I shall be entirely ready to change the theme when France shall have definitely triumphed. Until then neither ridicule nor menace will keep me from rallying all good citizens around the French flag".

Then turning to Germany, he recalled that more than four years had elapsed since the signing of the peace, and that France was still waiting for Germany to pay what she owes. Germany had forced France to seize gages, and after France had entered the Ruhr Germany took an attitude fatal to her own interests. Instead of co-operating with the French in the Ruhr, Germany has spent immense sums to organize a resistance which she believed would discourage France, but which resistance France has little by little overcome, and which now begins to fall of itself. When Mr. von Raumer or the Finance Minister of the Reich Mr. Hilferding affirms that Germany cannot recover financially until after the end of the struggle in the Ruhr, we can reply that if that is so, they are the master of such recovery. They have only to stop throwing milliards of marks into the Ruhr to encourage the workers in idleness; they have only to leave the population free to follow their own inclinations; the population only desire to work and to reach an understanding with us.

M. Poincare then stated.

"I understand quite well that the new Chancellor, Mr. Stresemann, now offers us other gages than the Ruhr and the railroads of the occupied regions. But we like better the bird in the hand than the ones in the bush. The guarantees mentioned do not add anything to the general mortgage given by the Treaty of Versailles to the Allies on all the property of the German states. We prefer the positive sureties that we have in hand to these theoretical rights, however extensive they may be. We will not let go of these sureties against general gages which may be excellent on paper but the product of which would elude us. We want realities, and we will not leave until paid."

"Aside from this Herr Stresemann declares with insistence that a close collaboration between the complementary industries of Germany and of France would be an excellent preface to the settlement of reparations and of a definite peace code. We, ourselves, would say (is it not so, my friends?) that the Chancellor puts the cart before the horse. Already, during the month of December last, Mr. Cuno made me the offer through his Ambassador, of conversations with German industrials with the view of preparing agreements with French industrials, and it is true that German producing coal and we producing iron ore, the industries of the two countries will one day find it advantageous to reach agreements. But the French citizens who are the most interested in these proposed economic conventions, have understood that before they can be prepared it is necessary to permit the Government of the Republic to obtain in the reparation problem, certitudes and results. The question which dominates all others, that which requires our greatest care, is in effect that of the recovery of our devastated regions. When we shall see that Germany is sincerely resolved to settle that, and to give us as security something other than promises, we will see with open mind the possibility of concluding economic treaties. But let Germany commence by changing her conduct and by showing at last her good faith. Let her renounce equivocations and evasions. Let her decide once for all to make serious efforts and to put herself in position to pay her debts."

"Up to the present we do not notice that her intentions have been very sensibly modified. The tone has changed, and after all that is some progress. But the song is almost the same. If the German Government would re-read the correspondence of Thiers with Saint-Vallier and Manteuffel it would better understand how a nation which has the firm intention



"to liberate itself should and must act. Germany is at the crossroads: if she wishes to save herself there is still time; if she persists in her methods she will bring upon herself catastrophes for which we will not be responsible."

Mr. Poincare spoke of the efforts of Germany to take Verdun. He spoke also the earthquake which has just visited Japan, and expressed sympathy with the victims.

"Then M. Poincare spoke of the reparation problem, of the duty of Germany to make reparation, and of the will of France to obtain her due. If Germany had not refused for four years to recognize this she would have spared herself many deceptions. Germany is responsible for the existing economic distress, the uncertainty due to inflation, the fall of the mark, and the rise in prices. Germany could have long ago assessed and collected productive taxes, reformed finance and government administration, stabilized the mark, regularized production, and progressively freed herself from debt towards the Allies. Germany feeling herself at the end of her resources is commencing to take count of realities. But she nurses still some illusions. Nevertheless the conditions which we have imposed publicly are unchangeable. They have been at numerous times approved by both French Chambers. It does not depend either upon the present Government or upon any other Government to modify them. The Germans who believe that the president of the Council is more exigent than his country and who hope for his fall are making a false calculation, which is doubtless inspired by their old habits under the Empire. With us there is no question of master and subject. We are a free democracy. A Government, no matter what it may be, is only the interpreter of the sovereign people. Now, never has the people had a will clearer or better expressed. Of this will I hear the echoes ringing always, not only in the devastated regions, but yesterday again at the other extremity of France, in faithful and patriotic Brittany which welcomed me so demonstratively. What France wants is to be paid. And she has taken the means to be. She is waiting until she shall be given satisfaction. It is not she who will falter."

The following is a translation of a speech made by Herr Stresemann in Berlin on September 12, 1923, which is referred to in this letter:

"The measures put in force by the government, such as the creation of a bank of issue to put in circulation a money of gold value will not bring about our salvation. Frankness is preferable to illusion. Before the solution of the exterior conflict the depreciation of the mark

"cannot be arrested, the recovery of the finances of the Reich can not take place. It is for this reason that the new German Cabinet has taken up the task of solving the question of the Ruhr. It is clear that this solution cannot be obtained simply by the continuation of passive resistance. In addition, my predecessor, Dr. Cuno as he stated a number of times, never said that our negotiations on the question of reparations should not commence until after the evacuation of the territories newly occupied. The passive resistance had only for its object the liberation of the territory of the Ruhr.

The decisive point for Germany is the question of the sovereignty of the Rhineland and the recovery of freedom in the territories of the Ruhr. We are prepared for that, to furnish substantial guarantees. The President of the French Council recently declared that he preferred the positive gages that France holds to rights more extensive but theoretical. He added that the guarantees that I propose form part of the mortgage provided for by the Treaty of Versailles.

Now, that which I propose includes the immediate participation of private property in these guarantees, and in consequence exceeds the provisions of the Treaty of Versailles. Also, a mortgage on private property constitutes a gage which may be realized upon, while the guarantees provided by the Treaty of Versailles do not. The creditors of the Reich, I believe, may deem themselves satisfied if first lien mortgages on the property of the Federated States and on private property, mortgages covering objects of real value capable of being rapidly mobilized, are delivered to a consortium of these creditors.

In this manner, France would be in a position to obtain important payments immediately. This is certainly not a 'theoretical right' nor a 'general guarantee', but a real and substantial gage. I repeat that these gages permit France to obtain a rapid realization, and it may therefore be supposed that the exigencies of France concerning the evacuation of the Ruhr are satisfied.

To be able to realize this plan Germany must necessarily be put in possession of the Ruhr, and her sovereignty over the Rhineland clearly re-established. If we obtain the guaranty that the territory of the Ruhr will be evacuated and the Rhineland re-established in its old rights, the question of passive resistance will be solved.

If we are guaranteed that anyone born in the Rhineland will have the right to return, then the possibility of working and the joy of working will be returned to us.



"I hope in the possibility of such a settlement. France has repeated a number of times through the President of the Council that she does not propose any annexation and that she does not think of remaining in the Ruhr. England has certainly the same viewpoint, Belgium will welcome the return to normal conditions, and we are convinced that Italy will support the same view.

For us it is a question of ascertaining if the German economic situation can support the charges which would result from such an accord. I understand how critical the present period is for our finances and our commerce, but I can state with satisfaction that the personalities guiding our economic life have offered me their collaboration in the plan which I have just traced and have bound themselves to continue their aid to effect the desired payments."

Faithfully yours,

*John G. Meyer*

JAL/AJG

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

JAMES A. LOGAN JR

*ack 10/17/23*  
*R*

Paris, 25 Sept. 1923.

Dear Mr. Beyer:-

In looking thru our files it has been noted that  
no acknowledgment has been received of letters dated May 11, 31st,  
June 8, July 13, 27th, and August 17. ✓  
X X X

As all of these letters have no doubt been received by you, will you kindly forward an acknowledgment at your convenience so that our files will be complete?

I thank you.

*A Gerhardus*  
Secretary to Mr. Logan.



UNITED STATES UNOFFICIAL DELEGATION  
REPARATION COMMISSION



Paris, 5 December 1923.  
18 rue de Tilsitt.

Dear Mr. Beyer:-

The list of letters shown in your letter of November 20, which you state Governor Strong has received from Mr. Logan tallies with our record----therefore, everything is all right. Thanks, very much, indeed, for the attention you have given to this matter.

Very truly yours,

*R. Gerhardus*  
Secretary to Mr. Logan.

George Beyer, Esq.,  
Secretary to Governor Strong,  
Federal Reserve Bank of New York,  
15 Nassau Street,  
New York City.

JAMES A. LOGAN JR.

ACKNOWLEDGED  
JAN 12 1924  
R S

Paris, 14 December 1923.  
18 rue de Tilsitt.

Personal & Confidential.

My dear Ben:-

I enclose copy of the confidential Report of the Financial Committee of the League of Nations entitled the "Reconstruction of Hungary" which I feel may interest you.

The Report appears to be fairly sound; however, there are some outstanding phases of the question which do not appear in the Report, but which are of decided interest from the investment phase.

*and not as yet settled.*

The French today, more or less in support of the Little Entente, are trying to insist that the principle of reparation payments be maintained during the period of the amortization of the proposed loan by the payment of small annual amounts on account of reparations. The French, undoubtedly, have also in mind some fear of the repercussion of the Hungarian arrangement (without reparations) on any possible plan of German settlement. In my judgment, there is no connection, and even if there were, insofar as Hungary is concerned, the banking world would not be justified in putting up one cent on a loan for Hungarian reconstruction if in turn one cent of such loan were to be paid out in meeting any Trianon Treaty charges. It would be too ridiculous.

I am very much pleased with our Government's agreement to "acquiesce in the acceptance by American nationals of invitations extended by the Reparation Commission to participate in the work of the two proposed committees". I have great hopes that this will be a real constructive act, and I would like to have your reaction and advice.

A Merry Christmas and A Happy New Year to you.

Faithfully yours,



JAL/AJG  
Encls.

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



ACKNOWLEDGED

JAN 11 1924

R S

JAMES A. LOGAN JR.

Paris, 28 December 1923.  
18 rue de Tilsitt.

Personal and Confidential.

My dear Ben:-

As you probably know, both the Reparation Commission and the League of Nations have been working on a scheme of reconstruction for Hungary based on the general lines of the scheme of reconstruction now in force in Austria, which involves a very considerable loan, as well as the acceptance by Hungary of an outside financial controller, or practically, financial dictator, responsible to the Reparation Commission, the League of Nations, and the bond holders of the proposed loan.

Due to Central European prejudices against Hungary, the plan to date has met with considerable opposition, and there still remain many details to be arranged before the plan is really on a business basis. The arrangement of these details will perhaps take some weeks, or even months--there is even some likelihood that before anything definite is done the German situation must be cleared up.

However, as a preliminary to all of this, there seems to be a desire from all quarters to select an American to fill the office of financial dictator in Hungary when the plan is finally consummated. In general, his functions will be similar to those now being exercised by Dr. Zimmermann in Austria. Zimmermann is a big, two-fisted fellow, a Dutchman, who was at one time the Mayor, or really the Business Manager, of Rotterdam. From all the reports that I get he is doing a good job.

I have been receiving a number of informal inquiries as to a suitable American for Hungary. Obviously, I don't want to appear in the matter officially, or even semi-officially, for it is not my direct concern. On the other hand, such friends of mine as Count Bethlen, the Prime Minister of Hungary, Sir Arthur Salter, Chief of the Economic Section of the League of Nations, and Mr. Niemeyer of the British Treasury, have asked my personal advice. I gather from all that their selection is centering on the name of Harding, now Governor of the Federal Reserve Bank of Boston. Confidentially, I also gather that Harding has been approached indirectly, and that he has shown decided signs of nibbling at the bait. I don't know Harding, but from his reputation he certainly must have all the technical equipment necessary to do a good job. In addition however to technical equipment, there must be mixed with this the qualities of a two-fisted man, and above all, a fellow who will exercise his two-fisted qualities in a tactful and diplomatic way. Has Harding these qualities? If this question is embarrassing to you, don't answer the letter, and I will understand. On the other

hand, if he has these qualities, let me know. Under any and all circumstances I will not use your name.

The position, if ever created, will be a most conspicuous one, and there is every chance for the fellow who gets it making a great international name for himself. While I know nothing about the salary, I presume it would be somewhat in the neighborhood of that given to Zimmermann, which is equivalent to about \$18,000 per annum cash, plus a furnished palace to live in, and, I guess, servants, automobiles, and most of the upkeep of the palace. All the latter, if translated into dollars, plus the basic salary, would make an effective and substantial total. The foregoing is, however, only a guess on my part as to this phase. I don't know how Harding is fixed himself, and therefore have no means of judging how important a factor this last phase would be to him.

Hoping you have had the Merriest of Christmases, and that you will have the Happiest of New Years, I remain,

Yours,

*John A. L. Jr.*

JAL/AJG

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



ACKNOWLEDGED

JAMES A. LOGAN JR.

JUN 30 1924

18, rue de Tilsitt,  
Paris.  
June 12, 1924.

R S.

PERSONAL

Dear Ben:-

I miss you very much indeed. The house is not the same without you. However, those wonderful presents which you gave me are all on display and they make a beautiful showing. You were a brick to me - bless your heart. I have been on the go pretty much since you left. Last week I made a running visit to Berlin and next week I am off for a short visit in Rome.

Basil Miles has written me about all your kindnesses concerning the "Agent General" job. I don't know whether I will get it or not, but the indications so far look fairly hopeful. I am for the best man, and if another fellow is offered the job and accepts it, he will have my backing to the limit in putting the Plan across.

The following may interest you concerning the present status of the Plan:

Due to the political situation here, we have not been able to make very fast progress. The organization committees are all set up. Schacht and Kindersley on the Bank Committee have about finished. The Railway Committee's work is going along splendidly. No fifth member has been appointed and I doubt if one will be required, though there is a chance that some minor divergence of views and detail as between the German and Allies representatives may have to be arbitrated, in which case a fifth member will be brought in for this specific purpose. The Industrial Debenture Committee is not making very rapid progress. It is a great pity that Pirelli would not serve on this Committee. No fifth member has yet been appointed but, in my judgment, one will have to be appointed shortly to give this work some "guts", as neither the French nor Italian member has a poker heated to the necessary temperature. I was informally approached with a view to suggesting a fifth member. Albert Rathbone, who was over in Europe and who preceded Boyden in my present job, had all the necessary background and punch for the job. I informally approached him but for personal reasons he felt that he could not touch it. There was no one else here immediately available that I would care to recommend, so for the present I have let the matter drop. If, when you get this letter, you think of any good sound American here in Europe who could do this job, cable me his name and if it is not too late I will try to have him drawn in.

I enclose copy of a "personal and confidential letter" which I have just sent to Barthou concerning a recent visit I made to Berlin, also a letter on the same subject to Bradbury. Somewhat similar letters, drafted in an endeavor to appeal to the particular psychology of the Italians and Belgians

6/12/20

were sent to Salvago-Raggi and Delacroix. I feel that they portray fairly accurately the political phase of the Experts' Report situation as it exists today. I also intend seeing Herriot next week, who I know quite well, and have a little heart to heart talk with him. I thought it a pretty good plan to send Barthou the letter which I did as he is a trimmer, wants to hold his job, and therefore, I believe, will try and swing even further than Herriot on the "conciliatory" and "settlement" thesis.

Everything is going along finely and, as always, I remain an enthusiastic optimist on the success of your Report. I feel, however, that it will not be put into effect at quite the early date we originally contemplated, and that a real and decided success is largely dependent on the conciliatory attitude of the Allies towards Germany. (In this connection see the enclosed Barthou and Bradbury letters) Now, my guess as to future developments and dates would be about the following:

- (1) Herriot will be installed as Prime Minister of France June 16th.
- (2) About July 1st Herriot will go to London for a talk with MacDonald. This meeting, I am advised, is practically arranged, and it is an all important step in clearing the atmosphere by adjustment of the political issues.
- (3) The MacDonald-Herriot meeting, if successful, (which I believe will be the case) may perhaps be succeeded by a full-dress meeting somewhere of MacDonald, Herriot, Mussolini, Theunis, and possibly Stresemann, where some agreement or pact will be formally adopted. This full-dress meeting can perhaps be avoided by reaching the same end through diplomatic channels or by the possible appointment of substitutes for the Prime Ministers.
- (4) By this time, or let us say roughly July 15th, the Reparation Commission will receive the reports of the organization committees and the German laws and decrees.
- (5) About August 1st the Commission should have disposed of the organization committees' reports and the German laws and decrees.
- (6) About August 15th the laws and decrees will have been enacted by the Reichstag.
- (7) By September 1st the systems of control, the bank, industrial and railway bonds business should be settled, and the whole plan put into operation.

The foregoing is my best forecast of probable happenings, and is based on the inclusion of all the most optimistic factors. The M.I.C.U.M. deliveries, as well as the status of the foreign loan, during the interval, will occasion difficulties. I hope, however, these can all be met. However,



10/14/20

J. A. L. Jr.

Page 3

from what I gather as to the present "feel" of the American markets on the foreign loan question, there is some cause for concern.

I also anticipate that some time in the course of the foregoing events there will be a meeting of the finance ministers to consider the question of the division between the Allies, and other allotments, of the annual German payments. This meeting will not of course concern the Report itself, nor the Germans. However, it promises to be a fairly acrimonious party and one in which our claims position may have to come to the front. Confidentially, I am pleased that Secretary Hughes will in all probability be in Europe at this time, and therefore immediately available for giving instructions as to the attitude to be taken.

With renewed expressions of my keen appreciation for your many personal kindnesses to me, your charming gifts, and with affectionate regards, I remain,

Yours,

*John A. L. Jr.*

*P.S. Maeter is gone and since has been to you. How are you & Helen?*

*S.*

Honorable Benjamin F. Strong,  
Governor of the Federal Reserve Bank of New York,  
New York City.  
Etats-Unis d'Amerique.

CONFIDENTIAL

CONFIDENTIAL

18, rue de Tilsitt, Paris,  
June 6, 1924.

My dear Sir John:

I was sorry to find upon my return from Berlin that you had already left for London. My Berlin visit of two days (June 3rd and 4th) was interesting. The first day it looked as if the Nationalists were going to force themselves into the Ministry and with the condition that Stresemann would have to go. Stresemann, at noon on June 3d, told me personally that he probably would have to get out of the Cabinet that evening. However, it later developed that Marx had decided to get along without the Nationalists and that therefore Stresemann and practically the entire old Cabinet was to be retained. In addition to Stresemann I also saw Marx, Luther and Schacht.

Marx said that the Experts' Report would be accepted by Germany at a very early date and that the two-thirds vote was practically assured. At the same time, however, he intimated that if the necessary two-thirds vote of the Reichstag was not obtained, President Ebert would dissolve the present Reichstag and call for new elections. He said the present Parliament, with its strength in the Nationalists on the right and the Communists on the extreme left, "was the German reaction to the past Poincare policy," and that it was not representative of the present feeling of the German people. He felt re-elections would not be necessary to obtain the two-thirds majority, provided the new French Government would come out with some definite statement following the general lines of Herriot's written and verbal statements in France since the elections. A large element of the Nationalist representation in the Reichstag would vote for the report, considering the views of the larger industrial and agricultural people that the adoption of the Experts' Report was essential to Germany's salvation.

Stresemann rehearsed all of what Marx had said, but in much more detail. I asked him if he would informally and confidentially place on paper a brief indication of the kind of support the present German Government needed to secure the two-thirds vote necessary for putting the Experts' Report in effect. The enclosed Exhibit A is this memorandum, which was handed me by the German Under Secretary of State for Foreign Affairs. Stresemann stressed the first point on the enclosed exhibit, viz: "Amnesty for German political prisoners". He stated that his position would be difficult and critical if at the time of the presentation of the new laws to the Reichstag this question was posed by the Nationalist floor leaders; but, if before such time, Herriot were to come out voluntarily with the statement that he proposed to take some satisfactory steps in the direction indicated, even if the release of most of the prisoners was conditions on the German acceptance of the plan and its actual going into



effect on or before a certain given date, his (Stresemann's) hands would be so strengthened as to assure the adoption of the plan by the Reichstag, I did not see the enclosure until after my last talk with Stresemann, and the various points which are enumerated were referred to in the most general way by Stresemann in his conversation with me. However, from my reading of this memorandum, I was, and I think you likewise will be struck by the general reasonableness of the Stresemann position. Stresemann fully realizes the uselessness of the German Government formally attaching any "conditions" whatsoever to the German acceptance of the Experts' plan. The memorandum has been drawn simply to show certain phases which, if originated and handled initially by the Allies, would have the result of strengthening the hands of the present German Government to such an extent as to practically assure the early approval of the Experts' plan by the Reichstag. To sum up briefly, Stresemann, as also Marx, clearly convinced me that while they were favorable to the plan of the Experts Committees Report, and while they were willing to stand or fall by it, they nevertheless were not overly-sanguine of successful results without some support being voluntarily advanced by the Allies along the lines indicated in Exhibit A.

As to the question of the M.I.C.U.M. agreements, Stresemann, Luther and Schacht referred to the difficulties at present being encountered by the German Government in financing past deliveries, and also to the practical impossibility of financing these deliveries for any extended period after June 15th. Exhibit B is a confidential memorandum on this subject which Schacht sent to me after our informal talk.

Exhibit C is a memorandum on the same subject which was sent to me just before I left by the German Under Secretary of State for Foreign Affairs. From what I gathered from Luther and Schacht this subject is one which is now being treated at length with London. You are, therefore, probably better informed on this phase than am I. However, the enclosed memoranda may bring out certain points which will interest you.

I had a very pleasant lunch with Lord d'Abernon who asked to be remembered most kindly to you. In his view, it was of the most urgent importance that the principal allied governments, with a minimum delay, come out with some formal agreement or pact unequivocally accepting the Report of the Expert Committees as the adopted settlement of the reparation question. He thought a French Government under Herriot, and the German Government would sign such a pact. An unequivocal acceptance, with the French a party to it, would, in his judgment, allay the present German suspicion of the French attitude as interpreted by it from Poincare's somewhat nebulous reply to the Reparation Commission. This vague response which so far, officially at least, continues as the formal French view, is affording very powerful ammunition to the opponents of the Government. Lord d'Abernon was insistent on the necessity of speed in reaching an interallied conclusion on the foregoing line. The remarks of Lord d'Abernon were given to me for confidential communication to you, and I feel that my statement of what he said for you is correctly set down in this letter. However, it was a personal



and confidential communication from him to you, and as he has undoubtedly taken the same question up through his regular channels with your Government, I would be gratified if you would consider this message as quite confidential.

I saw Fischer with Luther during our talk, and it developed that there was perhaps some thought on the part of the German Government of transmitting forthwith and formally to the Reparations Commission the drafts of laws and decrees. Knowing your views on the inexpediency of too much precipitation in formal submission, I volunteered the suggestion (which was accepted) that the best ends would be served were the German Government to let you and myself look at these drafts, with an opportunity for informal comment, before a definite decision concerning formal presentation was taken. From what I gathered, we will have this chance probably the early part of the next week, after your return from London.

Aside from the foregoing point I was naturally most careful at all times to maintain an attitude of non-committal reserve on all the various questions of politics, economics and policy mentioned by the Germans, and I avoided being drawn into any discussion of, or expression of opinion upon the various matters referred to in the exhibits or during the conversation.

The information above is sent in conformity with your request that I advise you what I gleaned in Berlin. I would have cabled but the date is too voluminous.

With kindest regards to Lady Bradbury, believe me, with warm personal regards,

Very sincerely yours,

Sir John Bradbury.  
Hotel Astoria.  
P a r i s.



CONFIDENTIAL

PERSONAL AND  
CONFIDENTIAL.

16, rue de Tilsitt,  
Paris.  
June 11, 1924.

Dear Mr. President:

During a recent visit to Berlin I was made aware of the views of some of the leading German officials with respect to the adoption of the Expert's Plan and upon certain collateral questions which, it occurs to me, will be of interest to you. They will perhaps be of more interest because of the fact that these officials expressed themselves as being strong partisans of the adoption of the Experts' Plan, and appeared sincere in their advocacy of the Plan as best for all concerned. I did not overlook that their advocacy of the Plan was perhaps based on the obvious conclusion that the Plan itself had the moral support of the world at large and, in addition, that it constituted the maximum Allied concession on reparations that Germany could obtain. They discussed the likelihood and the method of its adoption by Germany, and indicated certain steps which, in their opinion, would greatly contribute - if not almost guarantee - the early acceptance of the Plan by the German legislative body. The officials with whom I talked were Marx, Stresemann, Luther, and Schacht. Our conversations were quite informal, therefore privileged and in consequence confidential.

In the first place it was their view that the Plan will ultimately receive the necessary two-thirds vote of the Reichstag, and that if the present Reichstag failed to give such a vote, then President Ebert would dissolve it and call for new elections. But it was felt that the new elections, with the consequent delay and uncertainty could be avoided if the Allies were themselves to initiate some steps which would strengthen the hands of that section of German opinion which desires the immediate approval of the Plan, and which would take away the present ammunition and defeat the present tactics with which the Nationalists are combatting, and will continue to combat, the Plan's adoption. The present German Government, I feel, fully realize, in the present state of Allied public opinion, the futility of Germany formally attaching "Conditions" to the acceptance of the Plan. I don't mean to intimate by this that the German Government will not attempt to manoeuvre for "slight ameliorations of detail provisions". However, such manoeuvring will be on minor detail matter, can readily be blocked, and will not be directed against the real substance of the Report. On the other hand, the opposition, with the Nationalists, are in a position, when the laws necessary to putting the Plan into effect go before the Reichstag, to seriously jeopardize the success of the Plan by directing interpellations against the Government on questions somewhat extraneous to the Report, but which, in effect, would destroy the immediate, if not ultimate, success of the Plan. The opposition manoeuvre would therefore be directed to attaching "Conditions", with the object of thus defeating the Plan, whereas the present Government wants the Plan adopted by the Reichstag without "Conditions."



It was thought, for example, that it would be particularly helpful if the Allies were themselves to announce unequivocally that they accepted the Plan as a definite adjustment of the reparation problem, contingent, of course, upon Germany doing likewise. It was pointed out that the Allies had not yet unanimously taken a definite stand and, in particular, it was felt that the reply of M. Poincare to the Reparation Commission represented no definite commitment on the part of France, but rather postponed a decision awaiting further developments. Certain recent published utterances and letters of M. Herriot made an excellent impression and, in my judgment, had much to do with the prevention of the Pan-Germanist element from participating in the present Government. However, this latter German element points to the fact that M. Herriot's views to date are simply those of a French citizen, and that from the official point of view, the position of the French Government remains based on M. Poincare's formal letter to the Reparation Commission. Inasmuch as France is the principal reparation creditor, the Germans look with great interest and anxiety upon the attitude of your country, and the fact that it has not yet been made officially precise is affording, according to my German informants, considerable strength to the opposition.

In continuing their expression of views as to the steps which might be taken by the Allies which would facilitate - if not assure - the adoption of the Experts' Plan, the Germans claim that certain aspects of the aftermath of the Ruhr occupation will play a large part in German political thought and afford the strongest support for the opposition. It was intimated that the foundation of that opposition could be largely destroyed were the Allies to indicate that (contingent upon the Plan's adoption) certain measures of amelioration would be forthwith taken with respect to these causes of German discontent. It was pointed out that there was over 600 prisoners confined because of offenses in the occupied area, which offenses, from the German viewpoint, were deemed political, and that there were approximately 140,000 persons expelled from the occupied area for reasons which, again from the German viewpoint, were deemed primarily political. According to my informants, these issues, in German public opinion, were of paramount importance, and the interpellations in the Reichstag on this subject without some previous conciliatory Allied assurance concerning an adjustment of these points would place the German Government in a most critical position. On the other hand, if the Allies could, prior to the time of the presentation of the laws to the Reichstag, give some assurance for some degree of amnesty for these prisoners and allow the re-entry of expelled persons in the interest of restoring the economic unity of the Reich - if and when Germany adopted the Plan - the German officials felt that it would completely undermine the opposition's position. It was suggested that under the modified regime contemplated by the Experts' Plan for the economic restoration and independence of the occupied areas, a step of this sort would enhance the productivity of the Reich, and in no way injure the Allies. It was suggested that strong support would be given the German Government virtually assuring the passage of the laws if the Allies were to predicate these acts of grace upon an unequivocal acceptance of the Experts' Reports before the lapse of a certain number of weeks.



The Germans also emphasized the desirability from the German viewpoint, of some form of announcement concerning the military evacuation of the Ruhr at some fixed and certain date upon certain fixed and clear conditions. M. Herriot's recent letter to M. Blum was taken as most reassuring in this particular. However, the opposition again alleged that this correspondence was simply the exchange of letters between the chiefs of two French political parties which in itself did not necessarily commit the French Government.

Finally, these Germans said that the promise of the restoration of the Rhineland Agreement at a given date (also contingent upon the German Government's faithful adoption of the Plan) was a measure which would stimulate the Reichstag's acceptance of the Plan.

What I gathered from the conversations and what I again feel should be emphasized, was not that these Germans were putting the suggestions above outlined as "Conditions" precedent to their acceptance, but only that they felt that they needed the support of the Allies in getting the Plan adopted by the German legislative body, and that measures on the general lines suggested (or so much in this direction as appeared practical) would be of incalculable benefit in the adoption of the Plan, and its faithful execution. Their general position was that insofar as there was indefiniteness on the part of the Allies with respect to their attitude and action on the Plan, it was correspondingly difficult to secure definiteness from Germany. The Allies, they thought, could readily take definite stands, contingent upon Germany's full approval of the Plan, perhaps echeloning, at reasonable early dates, their concessions and acts of grace after the Plan was accepted and when it was being put into execution. They thought too that if these suggestions emanated officially from Germany that they might be considered by Allied opinion as evidences of evasion, or be regarded as attempts to impose "Conditions". In other words, I gathered that the German Government position before the Reichstag, so far as the Plan is concerned, would be almost unassailable if they could take away the fire of the opposition by replying that the acceptance of the Plan would forthwith, or shortly thereafter, eliminate the conditions upon which the opposition, or in other words the Pan-German element, bases its arguments for opposing the Plan.

The main difficulties of the German position are those indicated above. I may say in passing that considerable reference was made in the conversations to the financial and economic difficulties of the continuation of the M. I. C. U. M. agreements.

In connection with the views expressed to me by the Germans, I naturally maintained an attitude of non-committal reserve on all the points mentioned, and I avoided being drawn into discussion of or any expressions of opinion upon the matters referred to. My endeavor in this personal and unofficial letter to you is simply to present to you a purely objective picture of what I gathered to be the opinions and views of the present German Government after listening to its leaders in Berlin.



With warm personal regards, believe me,

Very sincerely yours,

JAL/wep

Monsieur Louis Barthou,  
President of the Reparation Commission,  
Hotel Astoria,  
P a r i s.



1.) Amnesty for German Political Prisoners

600 prisoners  
in Germany.

a) In the German view, all those actuated by unselfish and ideal motives are to be regarded as political prisoners, irrespective of the criminal stipulations which have been violated. The number of prisoners in question cannot, of course, be determined with accuracy, since the figures change almost daily in consequence of discharges and fresh arrests. At the beginning of May the prisoners tried or to be tried were estimated to number 600.

42 prisoners in  
France.

b) There are at the present time in French gaols (St. Martin de Ré, Loos-les-Lille, Melun, Beaulieu, etc.) 42 German prisoners condemned under French military law in the occupied territory. At least transfer to German gaols in the occupied territory of these German prisoners at present imprisoned in French territory, in so far as they do not fall under paragraph a).

140 000 expelled.

2.) Return of persons expelled.

The number of persons expelled together with their families, is estimated at 140 000.

3.) Territory Occupied under Treaty of Versailles.

Restoration of the

Rhineland Agreement.

So soon as the Dawes Report shall have been accepted and accepted and carried out by all the Governments concerned and a contractual basis restored as between Germany and her creditors, this contractual basis must be restored along the whole line. This implies that the territory occupied by virtue of the Treaty of Versailles must be restored to the status corresponding with the terms of the Rhineland Agreement. In particular, all ordinances decreed and all arrangements made by the Rhineland Commission on account of the Ruhr action would consequently have to be annulled.



4.) The More Recently Occupied Territory.

Military evacuation.

The restoration of the status sub 3.) entails further that the territories occupied over and above what is stipulated in the Treaty of Versailles, namely,

- a) the Ruhr district,
- b) the bridgeheads of Büsseldorf-Ruhrort and Duisburg,
- c) the spaces between the bridgeheads of Coblenz and Cologne as well between Coblenz and Mainz, the harbours of Karlsruhe, Mannheim, Wesel and Emmerich,

further Offenburg and Appenweier, be evacuated by the armies of Occupation.

For this evacuation a clear and unequivocal period should be fixed.

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## EXHIBIT B.

Translation

German industry suffers from an enormous lack of capital. This lack of capital cannot be aided by the Reichsbank, which cannot increase its paper mark circulation without danger to the currency and also not through foreign credits because only a limited portion of industry is in position to pay back foreign credits in foreign money. The worst sufferer from the lack of capital is the industry in the Ruhr district because it is burdened in addition by the Micum agreements.

The extension of the Micum agreements on April 15th was possible only because the railways bought and paid for in advance from the mines anthracite coal for future delivery. This was an amount of fifty million gold Marks which made possible the extension of the Micum agreements for two months. Meanwhile we have had the miners' strike. Its settlement was possibly only through financial sacrifices which industry again cannot bear out of its own resources. It has therefore taken up for this purpose with certain public and semi-public treasuries credits which amount to about the same sum as the advances from the railways. Thus the fluid capital of the railways as well as that of the treasuries mentioned has been exhausted. There are nowhere existent any means of financing the Micum agreements beyond June 15th. Thus June 15th is a critical point in the coming negotiations. In my personal view there are only two possibilities to continue beyond this date:

(1) either France renounces the Micum deliveries for a short transitional period until the execution of the Dawes report by all parties, or

(2) Germany receives an advance for the same period out of the two hundred million dollars loan.



Both possibilities are contingent upon a fundamental understanding being reached between all parties concerned on the execution of the Dawes report and upon the effective execution of the same being carried out as soon as possible. In case an agreement on the settlement of the Micum agreements is not reached in time, I envisage the greatest difficulties arising on June 15th out of this question. I assume in this connection the agreement of all far-sighted supporters of the Dawes plan that the Reichsbank can and must not finance the Micum agreements by means of the money-presses, if the new inflation connected therewith is not completely to shake anew the economic basis of Germany for the execution of the Dawes plan.

oOo



By the agreements of the M.I.C.U.M. with the Bergbaulicher Verein France and Belgium have since the end of the passive resistance secured for themselves unpaid coal deliveries from the Ruhr district under the title of reparation. They were originally concluded until the 15th of April. But since at that date the Experts Report, though published, had not yet been put into execution, the coal industry was forced to sign the agreement for another 2 months up to the 15th of June. They have since been carried out at great cost to the industry and with severe danger to its very existence.

To day again the situation is much the same as of April 15th, since the date of the practical execution of the Experts Reparation Scheme is still uncertain. It must be feared, and there are in fact clear indications, that the M.I.C.U.M. on the 15th of June will ask for another extension. But the coal industry, after these prolonged deliveries at a rate of 1,7 million tons a month unpaid for, is no longer in a position to finance further deliveries, credits in Germany being exhausted and foreign credits not available. The German Government again, as the Experts have clearly expressed in their report, is not in a position to make any reparation payments without endangering their Budget and the stability of the exchange.

On the other hand it cannot be contemplated, that France on June 15th will renounce their Coal deliveries altogether. We must, therefore, look for some means to finance such deliveries. The only way, we can see, is to base any further deliveries in one form or another on the Reparation fund, which will be available for the first year under the General Reparation Scheme.

Now the Experts plan proposes to raise on reparation account for the first year - principally for deliveries in kind -

1 milliard gold marks, i.e.

800 million G.M. out of the foreign loan

200 million G.M. out of the German railways.

Inquiries in London have clearly shown, that foreign financiers would not agree to spend part of this foreign money in advances for coal deliveries under the Micum agreements for french benefit outside the general reparation scheme.



But the same objection, obviously, does not apply to the contribution of the German railways, since this money is coming from German sources. Here, therefore, a solution offers itself and there are evidently two ways open to use this fund for the purpose in view:

1.) If the Allied Governments would give their consent, that any outlay for further deliveries until the General Reparation Scheme is definitely put into practice will be refunded out of these 200 million G.M. which under the Scheme eventually will be contributed by the German railways, it would probably be possible to finance advances to the coal industry by bonds or bills secured on this 200 millions fund. But it is evident that these amounts will then have to be deducted later from the Reparation deliveries of the first year.

The alternative would be, that the German Government itself, realising that the Micum agreements can no longer be carried out by the Ruhr industry ~~was~~ without endangering their very existence, would make a great effort and take on themselves the execution of the General Experts Scheme before all other details have been arranged and accepted by all parties and propose to start the payment of the railway contribution at a rate of 200 millions a year on June 15th, the amounts to be used for the payments of further coal deliveries in accordance with the programme of the Reparation Commission.

Such proposal in fact does not mean anything less but a practical acceptance of the Experts Scheme by Germany. For carrying out the financial obligations under the Scheme must be considered a much more complete form of acceptance, than merely working out and passing the necessary laws in Parliament.

Thus this last proposal would offer at the same time a quick solution of the General Reparation question, it being understood that the German Government's practical acceptance would make the whole Scheme in its entity valid and binding on all parties pending agreement on details and the definite acceptance of the necessary laws in Parliament.



JAMES A. LOGAN JR.

ACKNOWLEDGED

JUL 11 1924

R S

18, rue de Tilsitt,  
Paris,  
June 27, 1924.

PERSONAL AND CONFIDENTIAL.

Dear Ben:-

The conference between Herriot and MacDonald in London last Sunday was apparently fairly satisfactory although the conversation was most general. However, agreements "en principe" on the following points were reached: It was desired, if possible, not to have an amendment of the Treaty of Versailles as this would lead to endless negotiations and delay, but to adopt a protocol to be signed by England, France, Italy, Belgium and Japan and the minor Powers entitled to reparations to provide in substance as follows:

- (1) That all these Powers accept unconditionally the Dawes Report and agree to put it in force.
- (2) Germany to accept the same and take necessary legislative and executive action to put it in force.
- (3) A reasonably early date to be fixed, and a certain number of days thereafter allowed for the Report to go into complete operation by all countries.
- (4) All sanctions to be withdrawn and not re-imposed except for the wilful violation by Germany of the terms of the Dawes Report as therein provided for.
- (5) A body, to be determined upon, which will decide Germany's default and when sanctions are to be imposed the Reparation Commission first to pass upon the question of default. No sanctions to be imposed except after joint action and joint consideration by the Allied Governments.
- (6) Any disagreement as to the construction of the Dawes Report to be decided by an arbitral tribunal to be agreed upon. (The Finance Committee of the League of Nations was tentatively considered as an appropriate arbitral tribunal for this purpose).
- (7) A conference of the Powers above named to be held in London on July 16th, 1924. Great Britain, France, Belgium and Italy to be represented by their Prime Ministers, Japan by some representative to

be decided upon, and the other countries by their diplomatic representatives residing in London.

(8) The British Government to issue the invitations; an invitation to be extended to the United States to be represented in some capacity as "they are anxious to have such representations. It is believed it will be influential in the deliberations".

As you know, our Government has accepted the invitation, and we are to be represented by Kellogg, assisted by your humble servant. It promises to be a most interesting affair and I am delighted that I have a front seat.

Bradbury, in confidential conversation within the last few days concerning the set-up of personnel for the controls contemplated by the Experts' Report, stated that the present British attitude on this question was as follows:

1. Agent General to be an American. He intimated that Dwight Morrow was being pushed by the City, and that he had given certain intimations of his willingness to accept if the job was offered to him. Now, at the risk of it being mistakenly thought that my conclusions are influenced by personal motives, I nevertheless venture the view that the appointment of any eminent banker, and especially one from Wall Street, is not the best choice for this post, in consideration of the present political psychology in Europe with its strong socialistic and anti-capitalistic trend. There is already considerable attack, only partly veiled, on the Experts' Plan upon the general grounds that it represents the capitalistic dictation of Wall Street and London City. In my judgment, such criticism would be crystallized and confirmed by a banker's appointment from England or America. It will be remembered that Poincare, who still remains a strong leader of the French minority, was particularly outspoken about such influences. And what would Herriot's position be in the event of an attack on this line? The same situation holds in Belgium and Germany, and to a somewhat less extent in Italy. Only yesterday both Barthou and Delacroix volunteered the view that they hoped the banking people of America and London would not insist as a quid pro quo for the loan on the appointment of a banker as Agent General. They said there is a growing irritation in both countries to the manoeuvres of the City and Wall Street, which they maintain are unwisely directed at too much interference in Governmental affairs. I fully appreciate Dwight's special and undoubted equipment for the job. He is a personal friend of mine and for that reason I would like to see him get the job. I understand that the argument advanced for his being appointed is the effect that such an appointment would have on the loan flotation in America. This argument, we both know, is only partially founded, for as a matter of fact the American investor bases his decision almost entirely on the name of the issuing houses, and not on the name of individuals. The issuing houses of course have a responsibility to the purchaser, but this responsibility can be protected by sound security and the appointment of the banking representatives to positions strictly charged with the handling of the securities such as trusteeships, etc. The latter positions, are in my judgment, the appropriate ones for the bankers.



I feel that the interjection of the banker into the post of Agent General for the purpose of giving the necessary advertising to sell the loan, hardly counterbalances the future political and social trouble incident to such an appointment. The Plan will be difficult enough to work out without any handicap of this nature.

(b) The Bank Commissioner to be a Dutchman or other neutral. According to Bradbury, his Government first desired this appointment for a British national, but in view of the controversy in the American and British press concerning a dollar or sterling basis for the new bank, London City considered the appointment of a neutral as better tactics.

(c) Railway Commissioner to be a Frenchman.

(d) Practically all trusteeships contemplated by the Plan to be consolidated in a Joint Trusteeship, one a Belgian and one an Italian, thus providing representation for nationals of these latter Powers. Bradbury, in strict confidence, intimated that such Joint Trusteeship would probably be further extended to include one American, the necessity for such appointment being developed at the time the foreign loan was floated, and to meet the wishes at that time of the money lenders.

(e) Commissioner for control of revenues to be of British nationality.

Now I do not want you to get the impression that I am opposed from any personal motives to the appointment of Dwight Morrow. As I said before, I am a personal friend of Dwight's and a great admirer of his attainments. However, for the reasons stated, I feel his appointment would be most short-sighted policy for the banking fraternity as it would be misconstrued, and, in my judgment, would bring them out in the limelight as a target for future criticism by the Continental politicians -- in other words, in a position which, in my judgment, they would not want and which would give them serious difficulties in the future. I am also inclined to feel that it would seriously jeopardize the constructive results we all want to see reached. Confidentially, I have put the matter up quite honestly, as I see it, to Washington. I will keep my mouth shut from now on and will loyally do whatever I am told to do and in addition, under every and all circumstances, my back and full strength is at the wheel directed to pushing the whole plan forward. If Dwight, or any other banker, is appointed, he need have no doubt as to my loyal cooperation in the great responsibilities with which he will be faced.

Many thanks for your good letter of June 10th and for the extremely interesting enclosure which I have destroyed. With affectionate regards, I remain,

Faithfully yours,

Honorable Benjamin Strong,  
Governor of Federal Reserve Bank of New York,  
New York City,  
Etats-Unis d'Amerique.

