

a REPARATION COMMISSION

Exhibit A

ANNEX 1834 a.

*Proposals from the German Government
regarding Germany's reparation obligations.*

Confidential

ANNEX 1834 a 1.

DEUTSCHE KRIEGLASTENKOMMISSION.

K. No. 2586.

Paris, May 2nd 1923.

To the Reparation Commission, Paris.

I am directed by my Government to forward to the Reparation Commission a copy of the Note which the German Government has to-day addressed to the Governments of the United States of America, Belgium, France, Great Britain, Italy and Japan.

Signed : FISCHER.

ANNEX 1834 a 2.

(Translation transmitted by the Kriegslastenkommission).

It has always been the point of view of the German Government, which they are induced to re-state in the present international discussion, that questions, upon the settlement of which depend the reconstruction of the devastated areas, equally desired by Germany, and beyond that, the economic restoration and peace of Europe, can find their solution only through mutual agreement.

The occupation of the Ruhr-district, carried out in contradiction to the above principle, was met by the passive resistance of the population. The German Government share the wish of all reasonable people, that the tension which is daily growing more accentuated, should be relieved and that a stop should be put to the useless destruction of economic values.

They have therefore decided to make a further attempt in this direction, without however abandoning the principles underlying their juridical point of view, or renouncing passive resistance, which will be continued till those territories occupied beyond the Treaty of Versailles have been evacuated and conditions in conformity with the Treaty have been restored in Rhineland.

Notwithstanding the events of the last months, Germany has decided to maintain her readiness to fulfill all she possibly can for purposes of reparations, particularly for the reconstruction of the devastated areas. Every endeavour to put this intention into the form of practical proposals, is made difficult, because, on account of the state of the German financial and economic conditions, it is impossible to estimate the capacity of Germany expressed in definitely laid down figures. Therefore every solution must include an elastic factor, which takes into account the present impossibility to put forward an infallible estimate.

Furthermore it must be borne in mind, that Germany cannot raise capital sums of any size out of her own resources in the near future, because her trade balance shows no surplus. Therefore she stands in need of foreign loans, for the raising of which the reestablishment of German credit is the first essential.

Taking all this into consideration and in conformity with the fundamental principle which was prepared for the January Conference in Paris, the German Government sum up their proposals for the solution of the Reparation problem and the political questions involved therein as follows :

Germany's total obligations for deliveries in cash and kind, as stipulated by the Treaty of Versailles are fixed at thirty milliard goldmarks, which are to be raised by the issue of loans on the international money-markets at normal condition in instalments of

20 milliards up to 1st July 1927

5 milliards up to 1st July 1929

5 milliards up to 1st July 1951.

1. Subscriptions for the issue of the first 20 milliards goldmarks will be invited at once. The interest on the loan up to the 1st July 1927 will be paid out of the sum realised by the loan, which as a safeguard would be put under the control of the Reparation Commission. In so far as it was not possible to raise the 20 milliards goldmarks up to the first July 1927, interest at the rate of 5 % and 1 % as sinking fund will nevertheless be paid from that date onwards.

2. In case both sums of 5 milliard goldmarks each, cannot be fully raised within the proposed time-limits by means of loans under normal conditions, it should be left to an impartial international commission to decide, whether, when and how the rest is to be raised. The same commission is in July 1931 also to decide, whether, when and how the interest from the 1st July 1923 onwards, which has not been provided for, is to be raised. Such impartial international Commission will be, either the Syndicate that issues the first 20 milliard Goldloan, or a committee of international businessmen as proposed by the American Secretary of State, Mr. Hughes, and on which Germany is represented with equal rights, or alternatively an Arbitral Tribunal, consisting of the representative each of the Reparation Commission and of the German Government with a Chairman, for the appointment of whom, if no agreement can be reached by the two members amongst themselves, the President of the United States will be asked.

3. Germany will undertake on account of reparation the delivery of payments in kind in accordance with the earlier agreements and pending further arrangements as to the amount of such payments.

The German Government is convinced, that with this proposal they have reached the utmost limit of what Germany is able to pay by the highest concentration of all her resources; in fact it is highly doubtful whether in view of the heavy disturbances and enfeblement caused by the Ruhr occupation this proposal does not already surpass Germany's capacity. The German Government is equally convinced that no impartial judge could come to any higher estimates, when taking into full account the reduction of the basis of Germany productivity and the diminution of Germany's national wealth by her large former payments.

Should others not share this opinion, the German Government propose to submit the whole reparations problem to an international commission uninfluenced by political considerations, as suggested by State Secretary Hughes.

The German Government are prepared to provide special guarantees for the proposed payment. The entire property and all sources of revenue of the German Reich and States are already pledged under the Treaty of Versailles. How this pledge can be rendered effective for the purpose of the loan and what individual guarantees should be provided, can only be ascertained through negotiations with the international loan syndicate and the Reparation Commission. In accordance with agreements to be arrived at, the German Government are furthermore prepared to devise suitable measures including legislation, in order that the whole German national resources should participate in guaranteeing the service of the loan. Deliveries in kind are to be guaranteed by private, long-term agreements providing for penalties in case of default.

The carrying out of obligations assumed by Germany depends on stabilisation on the German currency.

If the German currency can be stabilised systematically and permanently in connection with the settlement of the reparations problem, the complaints of other industrial countries against unhealthy German competition will simultaneously disappear. After stabilisation it will further be possible to reorganise the German budget, as required by Germany and her creditors.

For a realisation of this programme it is necessary, equally in the interest of bondholders, that highhanded seizure of pledges and sanctions should cease in future, and that Germany should be freed from its present burden of unproductive expenditure and from its political and economical fetters. This implies that the administrative unity throughout Germany should be restored at an early date; that no further use should be made of the stipulations of the Treaty of Versailles refusing economic equality to Germany, and that, after stabilising the Mark, the imports of German goods should no longer be subjected to restrictions occasioned by depreciation of German currency.

In order to promote the peace of Europe in economic cooperation, and to restore the nature economic inter-relations between production and consumption, it is intended to provide the secure basis for an exchange of essential goods between the countries interested by private contracts. These should especially include private long-term contracts for the delivery of coal and coke.

In the same interest of peaceful cooperation between Germany and France, the German Government, as manifested in their suggestion to conclude a Rhine-pact, are prepared to conclude any agreement to ensure peace, based on reciprocity. In particular, they are prepared to come to an agreement obliging Germany and France to treat all contentious questions arising between them and not amenable to diplomatic settlement in a peaceable international procedure, viz. all legal questions before an arbitral tribunal, other differences according to a system of arbitrations on the lines of the Bryan treaties.

The German Government suggest entering into negotiations on a basis of the ideas set forth above. The first essential leading up to such negotiations must be, that the *statu quo ante* must be restored within the shortest space of time. That is to say, that those territories which have been occupied over and above the stipulations of the Versailles Treaty must be evacuated, conditions according to Treaty terms must be reestablished in Rhineland, those Germans, who have been imprisoned must be set free and those who have been expelled must be allowed to return to their homes and customary work.

The German Government are handing an identical Note to the Government of the United States of America, the Belgian Government, Italian Government, the French Government and the Japanese Government.

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COMMISSION DES RÉPARATIONS

REPARATION COMMISSION

ÉPREUVE

ANNEXE N° 1834 *b, c, d, e.*

*Propositions du Gouvernement allemand
relatives aux obligations de réparation de l'Allemagne.*

- b. *Réponses des Gouvernements français et belge.*
- c. *Réponse du Gouvernement britannique.*
- d. — — *italien.*
- e. — — *japonais.*

ANNEX No 1834 *b, c, d, e.*

*Proposals for the German Government
regarding Germany's reparation obligations.*

- b. *Reply from the French and Belgian Governments.*
- c. — *British Government.*
- d. — *Italian* —
- e. — *Japanese* —

ANNEXE 1834 b.

F. F. F.

RÉPONSE DU GOUVERNEMENT FRANÇAIS.

[NOTE : Une lettre conçue dans des termes identiques a été adressée de Bruxelles à la même date par M. Jaspar à M. Rœdiger, Chargé d'affaires d'Allemagne à Bruxelles.]

Paris, le 6 Mai 1923.

M. VON HOESCH, Chargé d'Affaires d'Allemagne, à Paris.

M. LE CHARGÉ D'AFFAIRES,

J'ai l'honneur de vous accuser réception de votre lettre en date du 2 Mai courant et d'y faire, au nom du Gouvernement français, la réponse suivante :

Les Gouvernements belge et français ne peuvent laisser passer, sans les relever et les contredire, un grand nombre des observations présentées par le Gouvernement allemand. D'une part, il n'est pas exact qu'une mesure quelconque ait été prise par la France et par la Belgique en méconnaissance du Traité de Versailles ; d'autre part, les propositions formulées aujourd'hui par l'Allemagne sont, en plusieurs points essentiels, en opposition avec ce Traité.

Le Traité de Versailles a déterminé les conditions dans lesquelles serait d'abord fixée et ensuite payée la dette de l'Allemagne. La fixation a eu lieu à la fin d'Avril 1921 ; les modalités de paiement ont été arrêtées le 5 Mai 1921 ; l'Allemagne a formellement accepté, à cette date, la fixation et les modalités. Depuis lors, elle n'a pas tenu les engagements qu'elle avait pris. Un moratorium partiel lui a été accordé. Elle ne s'est même pas acquittée de ses obligations réduites. La Commission des Réparations a constaté les manquements successifs que l'Allemagne avait commis. C'est à la suite de cette constatation et en exécution du Traité que la Belgique et la France ont pris des gages.

Contrairement à l'allégation du Gouvernement allemand, cette prise de gages s'est effectuée sans la moindre violence de la part de la Belgique et de la France, et s'il n'avait dépendu que de ces deux Puissances une collaboration se serait immédiatement établie, dans la Rhur, entre les industriels, ingénieurs et ouvriers allemands et les industriels, ingénieurs et ouvriers alliés. Ce sont les ordres venus de Berlin qui ont, seuls, empêché cette coopération.

Le Gouvernement allemand affirme que la population a répondu par une résistance passive à l'occupation de la Rhur. Rien n'est moins exact. Ce n'est pas la population, c'est le Gouvernement allemand qui a voulu et organisé la résistance. Le Gouvernement allemand le reconnaît, du reste, lui-même implicitement, puisqu'il déclare aujourd'hui que cette résistance ne cessera qu'après un accord sur les propositions actuelles. Si elle était spontanée, comment le Gouvernement allemand serait-il maître de l'abréger ou de la prolonger ?

Cette résistance, d'ailleurs, n'est pas seulement passive, mais active, alors que le Traité de Versailles stipule formellement que l'Allemagne n'a pas le droit de considérer comme un

acte d'hostilité une sanction, quelle qu'elle soit, prise après constatation de manquement par la Commission des Réparations.

Le Gouvernement allemand a provoqué, non seulement des grèves de fonctionnaires, mais un conflit général et systématique, des agressions, des sabotages, des délits de droit commun. Les Gouvernements belge et français ne pourront prendre en considération aucune proposition allemande tant que se prolongera cette résistance. Ils n'entendent pas que la vie de leurs officiers, de leurs soldats, de leurs ingénieurs, de leurs douaniers, de leurs employés de chemins de fer, soit exposée à des attentats, pendant que seront examinées les questions à régler. Ils n'entendent pas davantage que le fonctionnement normal des Commissions militaires de contrôle reste entravé et que le désarmement de l'Allemagne soit compromis, par le seul fait que la France et la Belgique impayées ont pris des gages auxquels elles avaient droit.

Les Gouvernements français et belge doivent ajouter que les propositions actuelles de l'Allemagne sont, à plusieurs points de vue, tout à fait inacceptables.

En premier lieu, les chiffres offerts ne représentent même pas, au total, le quart de la somme fixée par la Commission des Réparations et reconnue par l'Allemagne comme montant de sa dette envers les Alliés. La France et la Belgique ont déclaré à plusieurs reprises, et elles sont amenées à répéter ici qu'elles ne peuvent accepter la réduction de leurs propres créances et que, si elles sont prêtes à en compenser une partie avec les dettes interalliées, elles sont dans l'obligation matérielle de toucher le restant pour se relever des épouvantables désastres que leur a infligés l'invasion allemande. La France a, à l'heure présente, avancé cent milliards de francs pour le compte de l'Allemagne; la Belgique a avancé quinze milliards de francs belges et il leur reste à chacune, en dehors de leurs charges de pensions, plus de la moitié de leurs dommages à réparer. L'intérêt économique de la France et de la Belgique, l'intérêt économique du monde entier, la justice elle-même, commandent que les pays ravagés ne soient pas plus longtemps condamnés à se ruiner pour favoriser l'enrichissement de leur débiteur. Pas plus qu'à la France, la somme offerte ne permettrait à la Belgique, victime de la plus cynique violation des Traités, de restaurer aujourd'hui ses régions dévastées. Ainsi donc, tandis que les contrées envahies pendant quatre ans par les armées allemandes seraient exposées à rester indéfiniment dans la désolation, l'Allemagne continuerait à construire librement, dans la Ruhr et ailleurs, de nouvelles usines, des hauts fourneaux, des corons, des routes, des chemins de fer. La Belgique et la France sont résolues à ne pas souffrir cette iniquité.

L'offre de 30 milliards par le Gouvernement allemand contient, d'ailleurs, suivant l'expression dont vous vous servez vous-même dans votre lettre, une part « d'élasticité », dont il est à peine besoin de signaler l'arbitraire et le danger. Le chiffre que vous indiquez serait, d'après le Gouvernement allemand, un maximum et il serait facile à l'Allemagne de le remettre en discussion avant qu'il fût devenu une réalité.

Sans doute, le Gouvernement allemand prétend qu'il n'est possible d'estimer dès maintenant en chiffres fermes et définitifs la capacité de paiement de l'Allemagne. Mais précisément, lorsqu'ils ont établi le plan de paiement de Londres, les Gouvernements alliés avaient tenu compte de ce qu'il peut y avoir de juste dans cette observation et ils avaient reporté le paiement de près des deux tiers de la dette allemande à une époque indéterminée que devait seul fixer l'état de prospérité de l'Allemagne. Or, le Gouvernement allemand n'a pas cessé, depuis lors, de protester contre cette indétermination d'une partie de la dette. Il a dit et répété que ce qui l'empêchait de tenir ses engagements, c'est qu'il n'en connaissait pas le chiffre définitif. Aujourd'hui, il réduit de plus des trois cinquièmes la partie fixe de sa dette, il réduit de plus des sept huitièmes la partie indéterminée, mais il conserve

l'indétermination. Les Alliés peuvent-ils avoir quelques raisons de croire qu'il ne reviendra pas bientôt à son raisonnement primitif et qu'il ne déclarera pas que seule la partie fixe peut être payée par lui, sous prétexte qu'il ignore le montant total des ses obligations?

En fait, dans les propositions allemandes, il ne s'agit que d'une somme nominale et apparente de 30 milliards de marks or. Le montant effectif n'en part que du 1^{er} juillet 1927, et cela pour une somme de 20 milliards de marks seulement. C'est donc un moratorium complet de 4 ans 1/2 que réclame l'Allemagne à partir du 1^{er} janvier 1923, date à laquelle le Plan de Paiement de Londres a été remis en vigueur par la Commission de Réparations. La somme de 20 milliards se trouve, d'ailleurs, elle-même considérablement réduite, puisque, jusqu'au 1^{er} Juillet 1927, les intérêts doivent être prélevés sur le produit de l'emprunt. En calculant l'escompte à 6 %, la valeur actuelle des 20 milliards tombe à 15 milliards 820 millions.

Ces propositions imprécises sont, en outre, accompagnées de réserves qui permettraient de tout remettre en question dans quelques mois. Le Gouvernement allemand ne garantit même pas que les 20 milliards (ou la somme inférieure qu'il envisage) seront effectivement versés à la date indiquée. Il prévoit, tout au contraire, que, s'ils ne sont pas couverts par voie d'emprunt, la partie non versée portera l'intérêt dérisoire de 5 % et formera une annuité amortissable. Il offre moins de garantie encore pour les deux parts supplémentaires de 5 milliards, qui doivent, en principe, être payées le 1^{er} Juillet 1929 et le 1^{er} Juillet 1931. Une Commission Internationale décidera, dit-il, si ces deux tranches doivent être ou non émises et, de même, si les intérêts à partir du 1^{er} Juillet 1923, doivent être ou non versés. De tels aléas rendent impossible toute appréciation sérieuse de la valeur actuelle de l'offre.

Au surplus, les Gouvernements français et belge ont écarté, d'un commun accord, à la Conférence de Paris, l'idée de dessaisir la Commission des Réparations pour la remplacer par des Commissions internationales, des Comités de gens d'affaires internationaux, des tribunaux arbitraux. Dans le Traité de Versailles, l'Allemagne s'est solennellement engagée à reconnaître la Commission des Réparations comme juge des remises partielles de dettes et des ajournements de paiement, et il a été précisé qu'aucune remise ne pourrait être accordée que par un vote unanime des Puissances créancières. La France et la Belgique ne peuvent consentir à abandonner les garanties qu'elles tiennent du Traité.

Le Gouvernement allemand se déclare prêt à fournir des sûretés pour les prestations en espèces et en nature qu'il offre aujourd'hui et qui constituent simplement une diminution énorme de ses promesses antérieures. Mais au sujet de ces sûretés, il se borne à émettre les idées les plus vagues et les plus obscures, et, bien que la Commission des Réparations ait déjà longuement étudié, d'accord avec les Gouvernements alliés, toutes les mesures à l'aide desquelles l'Allemagne pourrait stabiliser sa monnaie, restaurer ses finances et procéder à des emprunts extérieurs, bien que les Gouvernements alliés aient maintes fois essayé d'inspirer à l'Allemagne des efforts sincères pour arriver à ces résultats, le Gouvernement allemand n'indique encore aujourd'hui, ni de quelle façon il cherchera à stabiliser sa monnaie, ni quelles mesures législatives il prendra, ni quelles ressources il propose d'affecter à la garantie des différentes tranches des emprunts.

Tout aussi vagues et tout aussi illusoire sont les indications données par le Gouvernement allemand au sujet des garanties de sécurité qu'il est prêt, dit-il, à offrir à la France. Il ne parle pas de la Belgique et cet oubli paraît, à tout le moins, singulier, lorsqu'on se rappelle la manière dont l'Allemagne, garante en 1914 de la neutralité belge, s'est alors comportée envers la Nation dont elle avait promis de protéger l'indépendance.

Au demeurant, les Gouvernements belge et français ont toujours été favorables « aux procédures internationales pacifiques » et aux « ententes de garantie de paix qui reposent sur

la réciprocité ». Mais le Traité de Versailles est une entente de garantie de paix qui repose sur la réciprocité et, cependant le Gouvernement allemand fait, dès aujourd'hui, bon marché des principales clauses qu'il contient. Dans cet ordre d'idées, comme dans celui des réparations, la France et la Belgique ne sauraient se contenter de nouvelles déclarations allemandes; il leur faut des certitudes.

En échange de propositions en partie inacceptables, en partie insuffisantes, le Gouvernement allemand émet la prétention que « le point de départ des négociations doit être que le *statu quo ante* soit rétabli dans le plus court délai », et, par application de cette condition générale, il demande « notamment » que les régions nouvellement occupées en parfaite conformité avec le Traité de Versailles, soient évacuées, que les mesures prises dans les Pays rhénans par la Haute Commission interalliée pour assurer l'exécution du Traité soient rapportées, que les Allemands arrêtés ou expulsés pour infraction aux ordonnances régulièrement prises soient libérés ou réinstallés dans leurs logements et leurs fonctions.

Ainsi pendant quatre ans et demi, c'est-à-dire dans la période même où les Gouvernements français et belge ont le plus besoin de recevoir des prestations en nature et des paiements en espèces, pour subvenir à la restauration des régions dévastées, ils devraient, l'un et l'autre, attendre patiemment sans gages ni garanties, qu'il plût au Gouvernement allemand de prendre les dispositions qui lui conviendraient pour leur offrir une somme indéterminée ou infime; et ils devraient même sortir de la Ruhr, où ils ne sont entrés que pour avoir sous la main des garanties et les gages auxquels ils avaient droit et qui leur étaient refusés.

Le Gouvernement belge et le Gouvernement français ont décidé qu'ils n'évacueraient les territoires nouvellement occupés qu'à mesure et en proportion des paiements effectués. Ils n'ont rien à changer à cette résolution.

Ils ne peuvent, au surplus, s'empêcher de remarquer que la note allemande n'est, d'un bout à l'autre, que l'expression à peine voilée d'une révolte systématique contre le Traité de Versailles. Si elle pouvait être prise en considération, elle aboutirait fatalement à la destruction totale et définitive de ce Traité; à la nécessité d'en négocier un autre, et à la revanche morale, économique, politique et militaire de l'Allemagne. Au lendemain du jour où la Conférence des Ambassadeurs vient, une fois de plus, de constater à l'unanimité que l'Allemagne ne remplit pas ses obligations en matière de désarmement, la France et la Belgique, devraient renoncer aux sanctions pacifiques que l'Allemagne les a forcées à prendre; l'Allemagne devrait être libérée des dépenses dont elle est, dit-elle, accablée et qu'elle qualifie d'improductives; ce qui paraît signifier qu'elle vise les troupes d'occupation et qu'elle veut priver la Belgique et la France d'une des garanties solides qui assurent leur sécurité et le respect du Traité; la Haute-Commission Interalliée devrait être désavouée et supprimée ou réduite à l'impuissance; l'Allemagne devrait être affranchie de ce qu'elle appelle les entraves politiques et économiques du Traité; les Alliés devraient lui rendre immédiatement le bénéfice de la clause de la nation la plus favorisée, ce qui lui permettrait de profiter des ruines qu'elle a accumulées en Belgique et en France pour s'assurer rapidement la supériorité industrielle sur les pays qu'elle a dévastés; la question des Réparations devrait être soumise, non plus, comme le Traité, l'a prévu, à une Commission dont l'Allemagne s'est engagée à observer les décisions, mais à des Commissions internationales; la Belgique et la France devraient abandonner leurs gages; elles devraient rester exposées à la violence des agents du Gouvernement allemand; et, en retour, de tous ces sacrifices, elles recevraient, une fois encore, quelques mots sur du papier, le Gouvernement allemand, s'il veut bien faire un retour sur lui-même, ne s'étonnera point qu'elles refusent un tel marché.

Veuillez agréer, Monsieur le Chargé d'Affaires, les assurances de ma haute considération.

Signé : POINCARÉ.

ANNEXE 1834 c.

ANNEX 1834 c.

A. A. A.

FOREIGN OFFICE.

13 Mai 1923.

A. A. A.

FOREIGN OFFICE.

May 13th, 1923.

RÉPONSE

DU GOUVERNEMENT BRITANNIQUE.

REPLY

FROM THE BRITISH GOVERNMENT.

A Son Excellence Herr Stahmer.

His Excellency, Herr STHAMER,

YOUR EXCELLENCY,

Le Gouvernement de Sa Majesté a prêté la plus grande attention au memorandum que votre Excellence m'a communiqué le 2 de ce mois et dans lequel le Gouvernement allemand présente ses propositions pour le règlement de la question des réparations.

Il est bien évident que cette démarche est la conséquence d'une suggestion que j'ai faite au cours d'un débat au Palement britannique, le 20 Avril, et c'est pourquoi le Gouvernement de Sa Majesté est particulièrement intéressé par la réponse qui a été faite à cet appel. Je ne puis cacher à votre Excellence que les propositions de votre Gouvernement ont causé un grand désappointement et que l'impression défavorable qu'elles ont faite sur le Gouvernement de Sa Majesté ainsi que sur les Alliés, est de celles que dans mon opinion le Gouvernement allemand aurait pu et dû prévoir, et par conséquent éviter.

Les propositions sont loin de correspondre, soit dans la forme, soit en substance, à celles que le Gouvernement de Sa Majesté aurait pu raisonnablement attendre en réponse à l'avertissement qu'il avait, en plus d'une occasion, cru devoir donner au Gouvernement allemand, par l'entremise de votre Excellence, et à l'invitation plus directe qu'il lui a adressée dans

His Majesty's Government have given their careful attention to the memorandum which Your Excellency communicated to me on the 2nd instant, and in which the German Government put forward their proposals for a settlement of the question of Reparations. This action on their part is well known to have been the sequel of a suggestion which I made in a debate in the British Parliament on April 20th; and His Majesty's Government therefore have a special interest in the response which has been returned to that appeal.

I cannot conceal from Your Excellency that the proposals of your Government have come as a great disappointment, and that the unfavourable impression which they have made upon His Majesty's Government as well as on their allies, is one which, in my opinion, the German Government might and ought to have foreseen and therefore guarded against. The proposals are far from corresponding either in form or in substance to what His Majesty's Government might reasonably have expected to be made in answer to the advice which I have on more than one occasion ventured to convey to the German Government through Your Excellency, and to the more direct invitation extended to them in the speech referred to.

le discours auquel je me suis déjà référé. Les causes principales de ce légitime désappointement sont les suivantes :

1° Le Gouvernement allemand offre en paiement total de sa dette reconnue, une somme qui, se trouvant bien inférieure au montant modéré qui était la base du projet britannique soumis à la Conférence de Paris de Janvier dernier, devait être reconnue a priori comme étant entièrement inacceptable par les Gouvernements alliés. En outre, le paiement de cette somme, quelque insuffisante qu'elle soit, est subordonné à l'émission d'une série d'emprunts internationaux, dont le succès, dans les conditions indiquées, doit être très douteux, d'autant plus que le projet proposé par le Gouvernement allemand contient actuellement des stipulations qui traitent du cas où les emprunts ne seraient pas réalisés. Plus encore les arrangements proposés à ce sujet impliquent des conditions financières qui sont moins lourdes pour l'Allemagne que si les emprunts devaient réussir, de telle sorte qu'il n'en résulte pour l'Allemagne aucun stimulant qui puisse l'engager à émettre ces emprunts.

2° L'absence, dans la réponse du Gouvernement allemand, d'indications plus précises quant à la nature des garanties que l'Allemagne est disposée à offrir, est plus particulièrement regrettable. Au lieu de recevoir des propositions concrètes et substantielles à ce sujet, les Gouvernements alliés sont mis en présence de vagues assurances et de renvoi à de futures négociations qui, dans une transaction d'affaires de cette espèce, manquent de valeur pratique.

Le désappointement est accru par la conviction que le Gouvernement de Sa Majesté voudrait avoir, que des indications peuvent être trouvées dans le Memorandum allemand, que le Gouvernement allemand reconnaît la possibilité qui lui incombe de faire un sérieux effort pour exécuter ses obligations d'après le Traité de Versailles, d'une manière

The main grounds of this legitimate disappointment are following :

1. The German Government offer, in total payment of their acknowledged debt, a sum which, falling far below the moderate amount forming the basis of the British scheme submitted to the Paris conference of January last, must have been known in advance to be altogether unacceptable to the Allied Governments. Furthermore, the payment of even this inadequate sum is made dependent on the issue of a series of international loans, the success of which in the conditions predicated must be largely speculative. So much so, that the scheme proposed by the German Government actually contains provisions dealing with the contingency of the loans not materialising. Moreover, the arrangements proposed under this head involve financial conditions less burdensome to Germany than if the loans were to be successful, so that no real incentive is thereby held out for her to attempt to raise them.

2. The failure of the German reply to indicate with greater precision the nature of the guarantees which they are disposed to offer is more particularly to be regretted. The Allied Governments, instead of receiving concrete and substantial proposals in this respect, are confronted with vague assurances and references to future negotiations, which, in a business transaction of this kind, are lacking in practical value.

The disappointment is enhanced by the belief which His Majesty's Government would like to entertain that indications are to be found in the German memorandum that the German Government recognize the responsibility resting upon them to make an earnest effort to discharge their obligations under the Treaty of Versailles in a

que les Alliées pourraient considérer comme à la fois équitable et sincère. Si l'Allemagne avait vraiment l'intention d'ouvrir la voie à une solution effective et rapide d'un problème qui, faute d'être résolu, trouble gravement les conditions politiques et économiques de l'Europe et même du monde entier, il semble regrettable qu'elle n'ait pas montré une appréciation plus juste des lignes générales suivant lesquelles seules une pareille solution peut être cherchée.

Le Gouvernement de Sa Majesté est persuadé, pour sa part, que dans son propre intérêt l'Allemagne reconnaîtra l'avantage qu'elle a à se montrer plus disposée à saisir les réalités de la question et, écartant tout fauxfuyant et toute controverse, s'attachera à considérer de nouveau et à étendre ses propositions, de manière à en faire une base possible pour une discussion ultérieure. Le Gouvernement de Sa Majesté sera prêt à prendre part, aux côtés de ses Alliés, au moment convenable, à cette discussion; il prend comme eux, à cette question, un intérêt réel qu'il n'a pas l'intention d'abandonner, et partage leur désir de mettre fin à une situation de péril international. Mais il ne peut cacher au Gouvernement allemand que le premier pas vers la réalisation d'un tel espoir doit être que l'Allemagne reconnaisse les nécessités de fournir une contribution beaucoup plus sérieuse et beaucoup plus précise qu'aucune de celles qui ont été proposées jusqu'à présent.

J'ai l'honneur, etc.

manner which the Allies could regard as both equitable and sincere. If Germany did intend to open the way to an effectual and speedy solution of a problem, the failure to settle which is gravely disturbing the political and economic condition of Europe, and indeed of the whole world, then it seems unfortunate that she should not have shown a keener appreciation of the lines on which alone can any such settlement be sought.

His Majesty's Government for their part are persuaded that in her ~~own~~ ^{best} interest Germany will see the advantage of displaying a greater readiness to grapple with the realities of the case and, discarding all irrelevant or controversial issues, will proceed to reconsider and to expand their proposals in such a way as to convert them into a feasible basis of further discussion. In such discussion His Majesty's Government will at the suitable moment be ready to take part by the side of the Allies, with whom they share a practical interest in this question, which they have no intention to abandon, as well as the desire to terminate a situation of international peril. But they cannot conceal from the German Government that the first step towards the realisation of any such hope must be the recognition by Germany that a contribution much more serious and much more precise is required than any which has yet been forthcoming.

I have the honour to be, with the highest consideration,

Your Excellency's most obedient Servant,

ANNEXE 1834 d.

ANNESSO 1834 d.

J. J. J.

I. I. I.

RÉPONSE
DU GOUVERNEMENT ITALIEN.

RIPOSTA
DEL GOVERNO ITALIANO.

12 Mai 1923.

12.5.1923.

L'examen attentif du Memorandum du 2 Mai courant qui contient les propositions du Gouvernement allemand pour un règlement de la question des réparations m'a convaincu qu'elles ne sont pas de nature à pouvoir servir de base aux Gouvernements alliés pour une discussion définitive.

Les instances répétées destinées à amener le Gouvernement allemand à présenter des propositions raisonnables et pratiques pour sortir de la situation dangereuse créée dans l'Europe centrale me donnaient quelques motifs d'espérer que la démarche du Gouvernement allemand aura marqué un progrès en vue d'une solution pacifique de la question; mais je dois constater que mon attente a été déçue. On sait quel est le point de vue du Gouvernement italien en la matière.

Comme il résulte des projets qui ont été présentés par elle dans les deux dernières Conférences de Londres et de Paris, l'Italie, en raison de sa situation économique et financière, est obligée de considérer comme toujours plus intimement liés le problème des réparations et celui des dettes de guerre interalliées et elle ne peut se dispenser d'insister pour qu'ils soient résolus le plus tôt possible en tenant compte des dépenses de reconstructions de ses provinces envahies.

Cette nécessité explique clairement son attitude, soit en ce qui concerne les délibérations de la Commission des Réparations, soit dans tous les événements qui ont

L'esame attento del memorandum del 2 Maggio corrente che contiene le proposte del Governo germanico per un regolamento della questione delle riparazioni, mi ha dovuto convincere che esse non sono di tale natura da poter servire di base ai Governi Alleati per una discussione risolutiva.

Le mie ripetute insistenze, dirette indurre il Governo germanico ad avanzare proposte ragionevoli e pratiche per uscire dalla pericolosa situazione creatasi nell'Europa Centrale, mi davano qualche motivo di sperare che il passo del Governo tedesco avrebbe segnato un progresso in vista una soluzione pacifica della questione; ma debbo constatare che la mia aspettativa è stata delusa.

E' noto quale sia il punto di vista del Governo italiano in materia.

Come risulta dai progetti da essa presentati nelle ultime due Conferenze di Londra e di Parigi, l'Italia, per le sue condizioni economiche e finanziarie, è costretta a considerare come sempre più intimamente connessi il problema delle riparazioni e quello dei debiti di guerra interalleati e non può fare a meno di insistere perchè tali partite vengano al più presto regolate tenendo conto anche delle spese di ricostruzione delle sue provincie invase. Questa necessità spiegano chiaramente il suo atteggiamento sia nei riguardi dei deliberati della Commissione delle Riparazioni, sia in tutti gli avvenimenti che hanno avuto luogo in seguito

eu lieu à la suite de la dernière Conférence de Paris, étant bien entendu que ses intérêts et ses exigences dans la solution d'une question aussi grave ne sont pas inférieurs à ceux d'un quelconque des autres États alliés.

Comme il en existe la preuve dans plusieurs manifestations officielles et actes exprès du Gouvernement royal, l'Italie est disposée à supporter sa quote-part des sacrifices pour arriver à un règlement général économique, mais elle ne peut consentir à ce qu'il lui en soit imposé au delà de ce que lui permettent raisonnablement ses propres forces.

Il ne faut pas oublier que la position relative faite à l'Italie dans le pourcentage des réparations allemandes se base aussi sur la considération de la part plus grande qui lui fut réservée dans les réparations dues par les petits États, à l'égard desquels l'Italie, obéissant à un mouvement de générosité et de modération et tenant compte de leur situation difficile, a consenti des concessions considérables sans invoquer ou réclamer en droit jusqu'ici de la responsabilité solidaire de l'Allemagne sanctionnée par les Traités, le Gouvernement allemand sait, du reste, que le Gouvernement italien s'est trouvé contraint, à son vif regret, de ne pas accepter le projet de règlement de réparations présenté par le Gouvernement anglais à la Conférence de Paris parce que, bien que visant un but élevé, le memorandum Bonar Law ne paraissait pas tenir suffisamment compte des exigences irréductibles de l'Italie.

Étant donné ce précédent immédiat, c'est avec un sentiment de légitime étonnement que le Gouvernement italien doit relever que le Memorandum allemand du 3 Mai est franchement inférieur aux propositions contenues dans le projet du Gouvernement britannique. A part ce fait que la somme fixée pour les réparations est manifestement de beaucoup inférieure à un chiffre quelconque, quelque minime qu'il soit, qu'on pouvait raisonnablement attendre l'emprunt international par lequel s'effectuerait entièrement le paiement de cette somme est seulement indiqué comme un moyen, sans

all'ultima Conferenza di Parigi, considerato e dato per fermo che il suo interesse e le sue esigenze nella soluzione di tali gravissime questioni non sono inferiori a quelle di alcuno degli Stati Alleati.

Come è documentato da molte manifestazioni ufficiali e atti specifici del Reale Governo, l'Italia è disposta a sopportare la sua quota parte di sacrifici per giungere ad una generale sistemazione economica; ma non può consentire che gliene siano imposti al di là di quanto ragionevolmente le permettono le sue forze. Né deve dimenticare che la posizione relativa ad essa fatta nella percentuale delle riparazioni tedesche, si basa anche sulla considerazione della maggior assegnazione che le fu riservata nelle riparazioni degli Stati minori nei riguardi dei quali, obbedendo ad impulsi di generosità e di moderazione e tenendo conto delle loro stremate condizioni l'Italia ha accordato concessioni notevoli senza fin qui richiamare o ricorrere al diritto della corresponsabilità tedesca sancito dai trattati.

E' del resto noto al Governo tedesco che il Governo italiano si trova costretto, con suo vivo rammarico, a non accedere al progetto di sistemazione delle riparazioni presentato dal Governo inglese alla Conferenza di Parigi perchè pur essendo ispirato ad alte finalità, il memorandum Bonar Law non tiene in sufficiente conto le imprescindibili esigenze dell'Italia.

Dato questo immediato precedente, è con senso di legittimo stupore che il Governo Italiano deva rilevare come il memorandum tedesco del 2 Maggio rimanga di gran lunga inferiore alle proposte contenute nel progetto del Governo britannico.

A parte il fatto che la somma fissata per le riparazioni è palesemente molto al di sotto di qualsiasi cifra, anche minima, che potesse ragionevolmente attendersi, il prestito internazionale con cui si vorrebbe interamente effettuare il pagamento di tale somma, è soltanto indicato come mezzo, senza le necessarie precisazioni e senza che

les précisions nécessaires et sans qu'il soit dit quelles dispositions adéquates devraient être prises pour son placement et son succès.

Toutes indications concrètes manquent également pour les garanties et les gages et toute assurance qu'ils seraient effectivement fournis.

La proposition allemande ne représente donc pas un plan méthodique et complet comme il aurait été indispensable, pour pouvoir donner lieu même à une discussion de principe; il se réduit à une suite d'indications vagues et imprécises qui ont d'autant moins de valeur que sont plus importantes les questions auxquelles elles se réfèrent en vue d'un règlement général.

Une telle insuffisance est une cause de regret pour le Gouvernement royal, parce qu'elle retarde, pour le dommage de tous, tout acheminement vers une solution du problème et qu'elle peut renforcer une opinion qui trouve un certain crédit: à savoir que l'Allemagne, sous l'influence de courants politiques intérieurs déterminés, cherche à se soustraire à l'accomplissement de ses obligations propres.

Dans ces circonstances, le Gouvernement italien, constatant que les propositions allemandes n'ont apporté aucune modification substantielle à la situation et n'ont fait que décevoir son attente, émet à nouveau l'avis que, tant dans l'intérêt de l'Allemagne que dans l'intérêt de la paix générale et de l'économie européenne, une nouvelle et prochaine décision du Gouvernement allemand donne lieu à des propositions qui, par leur contenu et leurs précisions, apparaissent de nature à pouvoir être utilement examinées par le Gouvernement royal d'accord avec ses Alliés.

sia detto come si provvederebbe adeguatamente per il suo collocamento ed il successo. Mancano del pari ogni concreta indicazione di garanzie e di pegni ed ogni affidamento della loro effettiva prestazione. La proposta tedesca non rappresenta quindi un piano organico e completo come sarebbe stato indispensabile per potere dar luogo ad una discussione sia pure di massima; ma si riduce ad una serie di indicazioni vaghe ed imprecise di tanto minore valore quanto a l'importanza della questioni a cui esse si riferiscono per la sistemazione generale.

Una tale insufficienza è causa di rincrescimento per il Regio Governo, perchè ritarda con danno generale ogni avviamento alla soluzione del problema e può rafforzare una opinione che trova un certo seguito: quella, cioè, che la Germania sotto l'influsso di determinate correnti politiche interne cerchi di sottrarsi al compimento delle proprie obbligazioni.

In così fatte circostanze il Governo Italiano, constatando che le proposte tedesche non hanno portato nessuna modifica sostanziale alla situazione, e per deluso nella sua aspettativa, conferma l'avviso che tanto nell'interesse della Germania, come in quello generale della Pace e dell'economia europea, una nuova non lontana decisione del Governo tedesco dia luogo a proposte che per il loro contenuto e per la loro determinazione, appaiano tali da poter essere ultimamente prese in esame del Regio Governo insieme con gli Alleati.

ANNEXE 1834 e.

F. F. F

15 Mai 1923.

RÉPONSE DU GOUVERNEMENT JAPONAIS.

Le Gouvernement japonais a examiné avec la plus grande attention les nouvelles propositions faites par le Gouvernement allemand, dans son memorandum du 2 Mai 1923, adressé au Japon, aux États-Unis, à la Grande-Bretagne, à la France, à l'Italie et à la Belgique, concernant tout le problème du paiement des réparations.

Le Gouvernement japonais, tant en raison du chiffre total des réparations que des modalités de paiement prévues et des garanties à fournir, est dans l'impossibilité de donner son adhésion au projet du paiement des réparations, qui constitue la partie essentielle de ces propositions.

Étant donné que le Japon n'a pas actuellement dans cette question, un intérêt aussi grand et aussi vital que les autres Puissances alliées auxquelles le Gouvernement allemand s'est adressé, le Gouvernement japonais s'abstiendra d'exprimer son opinion sur les détails de la nouvelle proposition allemande. Il tient cependant à exprimer son ferme désir que le Gouvernement allemand fasse le nécessaire en vue de faciliter un règlement rapide et amiable de l'ensemble du problème des réparations sur une base équitable.

Japanese Note of May 15, 1923

(Translation)

Tokio, 15 May, 1923.

The Japanese Government has examined with great care the new proposals made by the German Government in its memorandum of May 2, 1923, concerning the whole problem of the payment of reparations.

The Japanese Government finds it impossible to give its support to the project of reparation payments which constitutes the essential part of these proposals, as much on account of the total figure of reparations as on account of the method of payment provided for, and the guarantees to be furnished.

Due to the fact that Japan has not at the present time an interest in this question as great and as vital as the other Allied Powers to which the German Government has applied, the Japanese Government will abstain from expressing its opinion on the details of the new German proposal. It however wishes to express its firm desire that the German Government do the necessary with the view of facilitating a rapid and friendly settlement of the whole reparation problem on an equitable basis.

THE FRENCH REPLY.

Exhibit B

Paris, May 6. [1923]

The following is the text of the French reply handed to Herr von Hoesch, the German Charge d'Affaires, this evening:-

I have the honour to acknowledge the receipt of your letter dated May 2 and in the name of the French Government to make the following reply:-

The Belgian and French Governments cannot allow to pass without raising and contradicting a great number of observations made by the German Government. On the one hand it is not a fact that any measure whatsoever has been taken by France and Belgium in disregard of the Versailles Treaty, and, on the other hand, the proposals formulated today by Germany are in several essential points in opposition to that Treaty. The Treaty of Versailles has determined the conditions in which Germany's debts should first be fixed and then paid. The debts were fixed at the end of April, 1921. The methods of payment were laid down on May 5, 1921. Germany formally accepted on that date the amounts fixed and the methods of payment. Since then she has not kept the engagements she entered into. A partial moratorium was accorded to her. She has not even acquitted these reduced obligations. The Reparation Commission has declared the successive defaults which Germany has committed. It is as a result of those declarations and in execution of the Treaty that Belgium and France have taken pledges.

Contrary to the allegation of the German Government, this taking of pledges was effected without the smallest violence on the part of Belgium and France, and if it had depended only upon these two Powers, a collaboration would have been immediately established in the Ruhr between the German industrialists, engineers and workers and the Allied industrialists, engineers and workers. It was the orders which came from Berlin which alone prevented that cooperation.

The German Government affirms that the population responded to the occupation of the Ruhr with passive resistance. Nothing could be less true. It was not the population, it was the German Government which willed and organised the resistance. The German Government recognised this fact implicitly since it declares today that the resistance will not cease until after an agreement has been reached on the present proposals. If it had been spontaneous, how would the German Government be able to shorten or to prolong it?

This resistance, moreover, is not only passive but active, although the Versailles Treaty formally stipulates that Germany has not the right to consider as an act of hostility any sanction whatever which may be taken under a declaration of default by the Reparation Commission. The German Government has provoked, not only strikes of officials, but a general and systematic conflict, acts of aggression, sabotage, and offences against common law.

The Belgian and French Government cannot take into consideration any German proposal while this resistance continues. They do not mean to allow the lives of their officers, their soldiers, their engineers, their Customs officials, their railway employees, to be exposed to attacks while the questions which must be settled are being examined. Nor will they permit that the normal working of the military commissions of control shall be hindered, and that the disarmament of Germany shall be compromised by the single fact that France and Belgium, who have not been paid, have taken the pledges to which they have the right.

The French and Belgian Governments must add that the present proposals of Germany are from several points of view altogether unacceptable. In the first place, the figures submitted do not even represent in the aggregate a quarter of the sum fixed by the Reparation Commission and recognised by Germany as the amount of her debt to the Allies.

France and Belgium have declared on several occasions, and are forced to repeat here, that they cannot accept the reduction of their own credits and that if they are ready to set a part of these credits against the Inter-Allied debts they are under the material obligation to obtain the balance in order to recover from the frightful disaster inflicted upon them by the German invasion.

France has at the present moment advanced one hundred milliard francs on Germany's account. Belgium has advanced fifteen milliard Belgian francs, and there remains to each, in addition to their charges for pensions, more than half of their damages to repair. The economic interest of France and Belgium, the economic interest of the world, and justice itself demand that the ravaged countries shall no longer be condemned to ruin themselves for the enrichment of their debtor. No more than to France will the sum offered permit Belgium, victim of the most cynical violation of treaties, to restore today her devastated regions. Therefore, while the countries occupied for four years by the German armies would be exposed to the risk of remaining indefinitely in a state of desolation, Germany would continue to construct freely in the Ruhr and elsewhere new factories, blast furnaces, workmen's quarters, roads, and railways. Belgium and France are resolved not to permit such an iniquity.

The offer of thirty milliards made by the German Government contains moreover, according to the expression you employ yourself in your letter, a certain elasticity of which it is hardly necessary to point out the arbitrariness and the danger. The figure that you indicate would be, according to the German Government, the maximum, and it would be easy for Germany to bring it into discussion before it had become a reality. Doubtless the German Government pretends that it is not possible to estimate at present in firm and definitive figures the capacity of Germany to pay. But when they established the London Schedule of Payments the Allied Governments took heed of all that there might be of justice in that observation, and they carried the payments of nearly two-thirds of the German debt to an indeterminate epoch which would be fixed only in accordance with the state of prosperity of Germany.

The German Government has not ceased since then to protest against leaving in abeyance a part of the debt. It has said and repeated that what prevented it from keeping its engagements was that it did not know the definite amount to be paid. Today it reduces by more than three-fifths the fixed part of this debt; it reduces by more than seven-eighths the indeterminate part, but it keeps it floating. Can the Allies be at all sure that the German Government will not soon come back again to its original argument, and will not declare that the fixed parts alone can be paid on the pretext that the German Government does not know the total amount of its obligations?

In point of fact, in the German proposals only a nominal sum of thirty milliard gold marks (₧1,500,000,000) is mentioned. The effective payment only starts from July 1, 1927, and that is a sum of only twenty milliards (₧1,000,000,000) of marks. It is therefore a complete moratorium of four and a half years that Germany asks for, starting from January 1, 1923, the date at which the London Schedule of Payments was put into operation by the Reparation Commission. The sum of twenty milliards, moreover, is itself considerably reduced since up to July 1, 1927, interest must be subtracted from the yield of the loan. Taking the discount as 6 per cent., the actual figure of twenty milliards falls to fifteen milliards and 820 millions.

These vague proposals are accompanied by reservations which would leave it possible to bring everything again into dispute in a few months. The German Government does not even guarantee that the twenty milliards (or the lesser sum that it contemplates) will be effectively paid on the date mentioned. It anticipates, on the contrary, that if this sum is not covered by means of a loan the part left unpaid will bear the ridiculous interest of 5 per cent, and will form a redeemable annuity.

It offers still less guarantee for the two supplementary portions of five milliards which should, in principle, be paid on July 1, 1929, and July 1, 1931. An international Commission will decide, states the German Government, whether these two portions should or should not be issued, and similarly whether the interest from July 1, 1923 should or

should not be paid. Such contingent conditions make impossible any serious estimate of the actual value of the offer.

Moreover, the French and Belgian Governments at the Conference of Paris agreed to reject the idea of setting aside the Reparation Commission and replacing it by international commissions, international committees of business men, or arbitral tribunals. In the Treaty of Versailles Germany solemnly promised to recognize the Reparation Commission as judge in the matter of partial abatement of debts and adjournments of payments, and it was clearly declared that no postponement could be granted except by a unanimous vote of the creditor Powers. France and Belgium cannot consent to abandon the guarantees which they hold under the Treaty.

The German Government declares its readiness to furnish securities for the deliveries in cash and in kind which it now offers, and which simply constitutes an enormous diminution of its previous promises. But in regard to these securities it confines itself to the vaguest and obscurest ideas, and, although the Reparation Commission has already considered at length with the Allied Government all the measures which would help Germany to stabilize its currency, restore its finances, and raise exterior loans, although the Allied Governments have many times tried to induce Germany to make sincere attempts to achieve these results, the German Government even to-day does not indicate either in what way it will seek to stabilize its currency or what legislative measures it will take, or what resources it proposes to allocate for the guarantee of the different portions of the loans.

Similarly vague and illusory are the indications given by the German Government on the question of the security that it says it is prepared to offer to France. It says nothing of Belgium, and that forgetfulness appears at least singular when one remembers the manner in which Germany, a guarantor in 1914 of Belgian neutrality, then conducted herself towards the nation whose independence she had promised to protect. The Belgian and French Governments have always been favourable "to pacific international procedure," and to an "entente of guarantees for peace which rests on reciprocity." But the Treaty of Versailles is an entente of guarantee for peace which rests on reciprocity, and yet the German Government makes to-day little of the principal clauses which it contains. In this order of ideas, as in those of reparations, France and Belgium are unable to content themselves with the new German declarations -- they require certainty.

In exchange for proposals in part unacceptable and in part inadequate, the German Government puts forward pretensions that "the starting point of negotiations ought to be that the status quo ante be re-established with the least possible delay," and by the application of that general condition it demands, notably, that the regions newly occupied in complete conformity with the Treaty of Versailles should be evacuated, that the measures taken in the Rhineland by the Inter-Allied High Commission to assure the execution of the Treaty should be withdrawn; that the Germans arrested or expelled for infraction of orders regularly issued should be liberated or reinstated in their homes and their functions. Thus, during four and a half years, that is to say, the very period in which the French and Belgian Governments have the greatest need of receiving reparations in kind and payments in money to provide for the restoration of the devastated regions, they must both wait patiently without pledges or guarantees until it pleases the German Government to take measures which will be convenient for it in order to offer a sum indeterminate & infinitesimal; and they ought even to withdraw from the Ruhr, where they have gone in order to have under their hands the guarantees and the pledges to which they are entitled, and which were refused to them.

The Belgian Government and the French Government have decided that they will only evacuate the newly occupied territories according to the measures and in proportion to the payments effected.

They have nothing to alter in this resolution. They cannot in addition avoid remarking that the German Note, from one end to the other, is only the expression, scarcely veiled, of a systematic revolt against the Treaty of Versailles. If it could be taken into consideration, it would end inevitably

in the total and definitive destruction of that Treaty, in the necessity of negotiating another, and in Germany's revenge, moral, economic, political, and military. On the morrow of the day on which the Conference of Ambassadors unanimously declared, once again, that Germany had not fulfilled her obligations in regard to disarmament, France and Belgium are asked to relinquish the peaceful steps which Germany has compelled them to take; Germany should be relieved of the expenses by which she is, she says, overwhelmed, and which she describes as unproductive -- which appears to suggest that she has in mind the armies of occupation, and that she wishes to deprive Belgium and France of one of the solid guarantees which assure their security and respect for the Treaty; the Inter-Allied High Commission should be disavowed and suppressed, or reduced to impotence; Germany should be freed from what she calls the political and economic fetters of the Treaty; the Allies should accord to her immediately the benefits of the most-favoured-nation clause, which would enable her to profit by the ruins which she accumulated in Belgium and France, and so rapidly to obtain industrial superiority over the countries which she has devastated. The question of reparations should be no more submitted, as the Treaty provides, to a Commission whose decision on Germany has undertaken to observe, but to international commissions; Belgium and France should abandon their pledges; they should remain exposed to the violence of the agents of the German Government; and, in return for all these sacrifices, they should receive once more a few words on paper.

The German Government, if it will again reflect, will not be astonished, that France and Belgium refuse such a bargain.

Receive, Monsieur le Charge d'Affaires, the assurance of my high consideration.

(Signed).

RAYMOND POINCARÉ.

Italian Note of May 13, 1923.

(Translation)

Rome, 13 May, 1923.

A close examination of the memorandum of May 2, 1923, which contains the proposals of the German Government for a settlement of the reparation question, has convinced me that they are not of a nature capable to serve as a basis to the Allied Governments for a definite discussion.

My repeated efforts, designed to bring the German Government to present reasonable and practicable proposals to emerge from the dangerous situation created in Central Europe, gave me some basis of hope that the step of the German Government would have marked progress with a view of a peaceful solution of the question. But I must state that my expectation has been in vain. The view of the Italian Government on this subject is well known.

As results from the projects presented by Italy in the last two conferences of London and Paris, Italy by reason of its economic and financial situation is obliged to consider, as always, very closely connected the problem of reparations and that of interallied war debts, and it cannot avoid insisting that they shall be resolved as soon as possible, in taking into account the expenses of reconstruction of its invaded provinces.

This necessity explains clearly Italy's attitude, both in regard to deliberations of the Reparation Commission and in all the happenings which have taken place following the last Paris Conference, it being understood that its interests and its requirements in the solution of a question so grave are not inferior to those of any other of the Allied States.

As proof has been demonstrated in several official manifestations and acts of the Royal Government, Italy is disposed to bear its proportion of sacrifices to reach a general economic settlement, but it cannot consent that sacrifices shall be imposed upon it beyond those reasonably permitted by its own resources.

It must not be forgotten that the relative position given to Italy in the percentage of German reparations is also based on the consideration of the larger part reserved to it in reparations due by the small States, with regard to which States Italy, bowing to a movement of generosity and of moderation and taking account of their difficult situation, has consented to considerable concessions without invoking or claiming, up to this time, by right, the joint responsibility of Germany as prescribed in the Treaties. Besides this, the German Government knows that the Italian Government has been forced to its great regret, not to accept the project of reparation settlement presented by the English Government to the Paris Conference, because the Roman Law memorandum, while seeking high ideals, did not appear to take sufficiently into account the irreducible requirements of Italy.

Predicated upon this, it is with a sentiment of legitimate astonishment that the Italian Government must point out that the German memorandum of the 2nd of May is greatly inferior to the proposals contained in the project of the British Government. Aside from the fact that the sum fixed for reparations is manifestly greatly inferior to any figure, however small it may be, that might reasonably be expected, the international loan through which would be effected entirely the payment of this sum is only indicated as a means, without the necessary details and without stating adequate dispositions which must be taken for its floating and its success.

Italian Note of May 13, 1923

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All concrete indications for the guarantees and the security, and any assurance which they might effectively furnish, are likewise lacking.

The German proposal thus does not represent a methodic and complete plan, as would have been indispensable to warrant its being discussed in principle. It is reduced to a succession of vague and imprecise indications, which have as much less value as the questions to which they refer with a view of a general settlement are more important.

Such an insufficiency is a cause of regret for the Royal Government, because it delays, to the detriment of all, any progression towards a solution of the problem and that it may reinforce an opinion which gains certain credence; namely, that Germany under the influence of determined domestic policies, is trying to evade the fulfillment of its obligations.

In these circumstances the Italian Government, noting that the German proposals have not caused any substantial modification of the situation and have only dissipated its hopes, suggests afresh that, as much in the interest of Germany as in the interest of general European peace and economy, a new and early decision of the German Government bring forth proposals which, by their terms and their precision, appear of a nature to be examined usefully by the Royal Government in accord with its Allies.

MUSSOLINI

b) ANNEX I OF THE BELGIAN PROPOSITION OF APRIL 24, 1923.
ENUMERATION OF A CERTAIN NUMBER OF RECEIPTS WHICH
COULD BE INCLUDED IN AN ANNUITY.

The purpose of this work is to seek a certain number of resources which might be utilised in constituting an annuity.

We will examine separately and as concisely as possible the yield which might be expected ^{after} of an eventual period of monetary and budgetary adjustment:

- (1) From the farming out of the exploitation of German Railways
- (2) From the farming out of consumption monopolies.
- (3) From coal deliveries.

If ~~the~~ tax on consumable products is envisaged in this present study in the form of monopolies it is because this form interprets in the most direct way the idea of external control over the collection of the tax. However, a State monopole might also be envisaged and even if both of these systems raised insurmountable objections, one might perhaps envisage others which would leave intact the idea of an efficacious control.

CHAPTER I

FARMING OUT OF RAILWAYS.

It appears from certain recent conversations that a group of German industrialists would be disposed to again take over on its own account the exploitation of the railways of the Reich at an annual rental of one billion gold marks.

These conversations do not seem to have had at any moment the least official character nor to have taken the form of precise proposals nor do they constitute a serious base for an estimate as

to what the leasing of the railways might produce.

Furthermore the results of the exploitation of the railways by the German State since it again took them over on April 1st 1920 do not constitute a reasonable basis for the evaluation of the figures at which these railways might be rented.

The very particular economic and political conditions which have governed the German industrialists' activity since the war are known. It is to all of these conditions that is due the deficit arising out of the exploitation of the German railways since they have been centralised in the hands of the Reich. It is neither opportune nor necessary to demonstrate this again here, it will be sufficient for our purpose to illustrate this idea by two classes of fact: The rates and the staff.

As to the rates, it is only necessary to consult the following Table which shows for each of the increases of freight rates during 1922 the relation of the existing rate to the pre-war rate and the relevant comparative values of the paper mark to the gold mark.

Freight Rates during 1922

	<u>Period of Application</u>	<u>Comparison between Tariff in force and Pre-war Tariff.</u>	<u>Depreciation of the Mark.</u>
1922	February	26	1/50
	March	34	1/63
	April	48	1/69
	May	57	1/75
	June	72	1/179
	July & August	90	1/349
	September	134	1/718
	First 15 days of October	230	1/718
	Second " " " "	448	1/1618
	November	673	1/1757
	December	1630	1/3958

One sees at a glance that these rate increases have never been proportional to the depreciation of the mark: for certain ~~periods~~ periods (for example the month of September) the freight rate in force represented less than one fifth of what should have been the equivalent of the pre-war rate.

For the passenger rates comparison is even for striking as is shown in the following tables:

Passenger Rates during 1922.

<u>Period of Application</u>	<u>Comparison Between Tariff in force and Pre-War Tariff.</u>	<u>Depreciation of the Mark.</u>
1922		
February to September	17	1/129
October	25	1/718
November	51	1/1618
December	103	1/1757

One sees that from February to September (when the mark fell from 80 to 350 paper marks to one gold mark) the rate remains fixed without change in paper marks at 17 times the pre-war rates. For the month of November, for instance, the passenger rates represent only one thirtieth to what it should be for the equivalent of the pre-war rate.

This shows clearly the enormous loss in receipts resulting from not adapting the railway rates to the depreciation of the mark.

As regards the exploitation expenses it is well known that undoubtedly for reasons of internal politics these have been inflated since the resumption of operation by the Reich beyond all reasonable limits. One indication amongst many others is the number of agents employed.

The present system of 50,000 kilometres, which employed 650,000 people before the war divided between eight different administrations, employs to-day when the system is centralized under one administration nearly one million agents representing an increase of more than 50% over the number of agents pre-war.

As an example it should be remembered that the Belgian Government, which also exploits the Belgian railways, employed in 1913, 73,400 agents and in 1921, 83,300, an increase of 13% over the pre-war number of agents.

This one comparison brings out to what important an extent the exploitation expenses might be reduced if they were brought in line with the normal expenses of an ordinary industrial enterprise and managed without regard to political preoccupation.

Burdened with an enormous loss of receipts due to ridiculously insufficient rates and no less considerable inflation of expenses, the result of a study of the exploitation of the German railways can therefore give no idea of their value as a reliable asset.

It is better to refer to the results of their operation before the war, a normal period during which each confederate state exploited its respective system.

From the information furnished by the German Delegation at Brussels (Dec. 1920) the systems of the German States (approximately 55,000 kilometres) closed their 1914 period with the following profits:

Prussia and Hesse	462	millions	of	marks
Bavaria	68	"	"	"
Saxony	25	"	"	"
Wurtemberg	17	"	"	"
Baden	26	"	"	"
Mecklenburg	4	"	"	"
Oldenburg	7	"	"	"
TOTAL	609	millions	of	marks

It must be noted that because of territorial cessions under the Treaty the total length of these systems has been approximately reduced from 55,000 to 50,000 kilometres, or about 10%. On the other hand it is certain that the value of this system and consequently its rental value has been notably increased since 1914 due to improvements of every kind which have been made, especially during the war, to facilitate military operations.

We will admit here as a first estimate that the 10% reduction in the mileage of the system arising out of territorial losses is compensated by the increased value due to improvements. We will conclude that the German railway system as it exists to-day

is susceptible of providing a revenue similar to that produced in
more than
1914, namely, 600 millions of marks at that time.

Taking account of the actual devaluation of gold (average 1922: 1.49) it is seen that on this base a total annual profit of approximately one billion gold marks could be expected from a normal exploitation of the German railway system.

We can admit, therefore, that the conversations, to which we made allusion above, reflected a worthy echo of valuation seriously founded and that there should not be any real difficulty for the German Government to lease the exploitation of its railway system at an annual rental of one billion gold marks.

CHAPTER II.

LEASING OF CONSUMPTION MONOPOLIESI. GENERAL CONSIDERATION.

It has many times been demonstrated that the revenue from taxes on consumption in Germany is decidedly inferior to what it might be and to what it is, all things being equal, in other countries.

We do not propose here to retrace the demonstration of this fact especially since it must be apparent from the following considerations based on figures.

As is known the extremely meagre return from German indirect taxation arises principally from the continued depreciation of the mark, with the existence of laws whose tenets apply, not to the value of the product, but to the quantity; laws of this nature fixed in terms of paper marks and invariable, no matter what may be the increase of prices resulting from mark depreciation, soon cease to represent more than an infinitesimal percentage of the value to which they apply. Of such cases we will give a few examples:

In every system of indirect taxation it is important, above everything if it is desired to arrive at solid conclusions, to protect oneself against the variation of the value of the mark. Whether the product of the tax on consumption is obtained by imposing a specific tax or an ad valorem tax, the gold base is the only one which permits of reasonable estimates. That is why we will endeavour to express in terms of gold all the factors of the problem and we will suppose that from now on the different taxes envisaged will be collected on the basis of gold. By this is meant that the consumption in paper marks to be collected for different taxes must represent an invariable gold value no matter what the depreciation of the mark. This can be easily enough and completely enough put into practice by applying to the tax itself an "Aufgeld" properly fixed, a system which is analogous to that actually in use in Germany for Customs duties, but a more exact one.

In the following paragraphs we will examine successively all of the commodities subject to these consumption taxes. For each of these we will endeavour to determine what was the pre war taxation, or the first record; what is the taxation set up by the legislation known as "physical compromise" (April 8, 1922); the legislation which is actually in force, and finally, what is the corresponding taxation existing in other great countries. This research will permit us to determine what normal indirect taxation might be in Germany and what returns on a gold basis, if this is assured, as stated above, might be reasonably expected.

These returns will indicate in a manner sufficiently precise for a first estimate the yield which could be expected from commercial monopolies established for the different commodities envisaged and consequently the rental which could be legitimately expected from the leasing of these monopolies ^{to} judiciously created consortiums.

A study of the forms of such monopolies ^{which} might be set up is not the direct object of this work.

The creation of such organisations can be seen in many different ways and it is always wise to proceed with the greatest prudence in order to disarrange to the least possible extent the present economic structure of Germany.

That is why we think it is not opportune to consider the creation of production or manufacturing monopolies which would profoundly upset the organisation of German production. Not only do the chances of success of such efforts appear meagre, but even if they should succeed it could not be possible until after numberless fumbling experiments, considerable difficulties and after a long time. It is important that the monopolies decided upon should be able to function as quickly as possible and produce in the near future the expected return. These brief considerations lead us to conclude that the sales monopolies are the only ones to be considered at the present; changing in no way production and manufacturing actually going on in Germany. They would cause no trouble to the industrial organisation

of this country. Only commercial habits would be slightly changed and even these to such an extent as not to lead to the expectation of difficulties or considerable loss of time.

The Alcohol Monopole created in Germany by law of March 27, 1913, re-established by that of April 8, 1922, is moreover an example of the relatively great use with which these organizations can be installed.

In the following therefore we place ourselves purely in the point of view of the creation of a sales monopole for each of the products subject to consumption taxes. We will endeavour to find the rental which can be asked for each of these basing ourselves on a reasonable consumption tax collection which we will suppose to be assured on a gold basis.

This rental might likewise be fixed on the basis of the volume of business done by the monopole, or on the basis of profits realized, or set simply as a fixed annuity.

In the sphere of our preoccupation (which includes the guarantees to be found for annual service of a given capital) it is preferable to consider the payment by the concessionnaire of the monopole by a fixed rental which will be paid compulsorily to the Separation Treasury or to guarantee funds of an eventual loan.

We will admit therefore that once the purchase prices for mines and factories, the general expenses and organization costs of the monopole, and the reasonable profits of the latter have been established, the resulting selling price should be increased by a tax equivalent to the consumption tax which the corresponding material can support. What this last amounts to only would be taken into account in the selling price which would constitute the annual rental of the concessionnaire of the monopole and it is that which we propose to fix for each of the materials envisaged.

2. TOBACCO.

The greater part of the tobacco consumed in Germany is imported in the form of crude tobacco (tabac brut) which is then manu-

manu-

(9)

factured in the country either in the form of chewing tobacco or snuff, as cut tobacco, or as cigars and cigarettes.

Germany actually imports 76 million kilos. and grows on her own soil 30 million kilos. Exportation represents about 5 million kilos. so that the annual consumption in Germany is a little more than 100 million kilos.

The consumption tax is calculated on the retail selling prices. This has produced 144 million gold marks during the exercise 1920-21 and 160 million kilos.

The consumption tax is calculated on the retail selling price. It produced 144 million gold marks during the exercise 1920-1921 and 160 million gold marks during the following exercise. This yield has now dropped owing to the depreciation of the mark to 74 million gold marks.

This represents, therefore, at the present time a tax of .74 gold marks per kilo. This yield, which is a result of the insufficient taxation rate as well as of the depreciation of the mark, is laughable; in France, the profit realized by the tobacco monopoly represents, for a consumption one half less than that in Germany, a levy varying between 5.1 and 7.3 gold marks per kilo. Further, here it must be realized that it is a question of a statecontrolled monopoly and that it is permissible to expect from a monopoly exploited commercially a greater yield.

It would be, therefore, moderate to fix a taxation rate in Germany in order to obtain a yield equivalent to $4\frac{1}{2}$ gold marks per kilo. On this basis the rental which could be expected from a tobacco monopoly is shown to be 450 millions of gold marks.

3 - B E E R

Before the war beer was the object of a very complicated taxation, and furthermore the taxation was special for each of the confederate states. The yield in 1913 was 130,000,000 gold marks.

The law of July 23, 1918, provided an average tax of 10 to $12\frac{1}{2}$ marks a hectar litre, besides being susceptible of reductions or increases, and which represents at the exchange rates of that period an average tax of 9 gold marks a hectar litre.

In April 1922 (fiscal compromise) the average taxation rate went from 40 to 50 paper marks per hectar litre, or, at the exchange rate of this period, approximately .65 gold marks per hectar litre, being $\frac{1}{20}$ of the tax in force in 1918.

Since that date this tax has remained unchanged, with the result that in April 1923, for example, (5061 paper marks to one gold mark) it represents about $\frac{1}{100}$ gold marks per hectar litre, or $\frac{1}{65}$ of the tax of the fiscal compromise, and less than $\frac{1}{1000}$ of the tax of 1918.

This ridiculously low tax is to be compared with that in force in England, for example, which is £ 2. 10. 0, or 46.5 gold marks per hectar litre.

One can conclude that a tax the equivalent of 6 gold marks per hectar litre would be moderate not only with reference to the law in force in other countries (46.5 gold marks in England), but even in regard to the German taxation

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of 1918 (9 gold marks per hectar litre).

The annual beer consumption in Germany varying between 30 and 40 million hectar litres, it is certain that the sum of 200 million gold marks constitutes a minimum estimate of the yield of this tax. It is, therefore, this sum which can be envisaged as the minimum annual rental to be asked for the beer monopoly.

4 - NON-SPARKLING WINES

The tax on non-sparkling wines was restored in Germany by the law of July 25, 1918, which fixed this tax at 20 per cent of the selling price.

The fiscal compromise maintained this tax as it was and it is still in force unchanged.

Its yield, which reached 45.3 millions gold marks in 1920-1921, has fallen now to 11.4 millions gold marks due to the depreciation of the mark.

The consumption of wines in Germany surpasses 200,000 hectar litres yearly; the value of this consumption was 2 billion paper marks in 1919 and 3 billion paper marks in 1920, or approximately 320 millions of gold marks a year. An advalorem tax of 20 per cent, represented, therefore, on this basis an annual yield of 64 million gold marks.

To keep within the limits of a very moderate evaluation, we will admit that a monopoly of non-sparkling wines could furnish without difficulty a rental of 50 million gold marks judging from the yield of the tax during 1920 and 1921.

5 - SPARKLING WINES

Taxation of sparkling wines in Germany goes back to the law of May 9, 1902, which, modified by that of July 15, 1909, remained in force until July 26, 1918.

Under that regime the tax on sparkling wines produced 10 millions of marks in 1913.

The law of April 21, 1920, modifying the rates of that of July 26, 1918, set the tax of 3 marks per bottle for fruit wines excepting raisin wines, and at 12 marks per bottle for all other sparkling wines. This tax represented approximately one gold mark per bottle.

The fiscal compromise of April 1922 replaced this provision by an advalorem tax of 30 per cent. on the selling price. The yield of this tax is so far only about one million gold marks per year, even though the annual consumption amounts to 15 million bottles in 1919 and 10 million bottles in 1920.

A tax established on the basis of one gold mark per bottle should give an annual yield of 5 million gold marks (half the pre-war yield), and it is this figure which can be assigned as the rental for a sparkling wine monopoly. This figure is still inferior to the yield of the tax on sparkling wines of recent years (exercice 1921-1922 7.3 millions gold marks).

6 - MINERAL WATERS AND SOFT DRINKS

The law of July 26, 1918, is the origin of the taxation of mineral waters in Germany. It was modified by the law of April 6, 1922, which provided the tax of 5 marks and 10 marks per hectar litre for mineral waters and soft drinks respectively. As a result of the depreciation of the mark the yield of this tax is actually only 1/4 million gold marks a year after having been 5 million gold marks (exercice 1920-1921). At the average rate for the first quarter of 1922 (54 paper marks = 1 gold mark) the basis for the rate actually in force, the tax represented 1/10 gold mark and 2/10 gold mark per hectar litre for mineral waters and soft drinks respectively.

A law calculated on this basis would give, applied to the annual consumption of 500,000 hectar litres of mineral waters and of 2,000,000 hectar litres of soft drinks, a yield which would not reach 1/2 million gold marks.

Considering on the one hand the nature of the commodity, which scarcely permits of the rate of taxation being increased without running the risk of appreciably restraining consumption, and on the other hand the relatively meagre yield which can be expected, it seems that there is no need to envisage here, at least in the first estimate, the setting up of a monopoly for the sale of mineral waters and soft drinks.

7 - ALCOHOL

There exists at the present time in Germany a state monopoly for alcohol. This monopoly, in existence since the month of October 1919 and reorganised on October 1, 1922, originates in a draft law presented to the Reichstag on April 17, 1918.

By this draft the taxes (which were at that time from 64 to 123 marks per hectar litre) were to have been altered in order to assure to the Reich a yield of 300 marks per hectar litre, which corresponds to approximately 650 gold marks per hectar litre.

As a result of the depreciation of the mark, the present taxation (applied to an annual consumption of 2 million hectar litres) represents only about 130 gold marks per hectar litre; and besides it applies only to one half of the consumption, the other half being practically freed from taxation.

This rate of taxation of 130 gold marks per hectar litre is moreover very low in comparison with the rates applied in other countries. These latter are:

England	- £ 143. 16. 0.	=	2700	Gold Marks per hectar litres.
Belgium	22,400 Francs	=	800	" " " " "
France	1,000 Francs	=	345	" " " " "

Thus it is seen that it would be even extremely moderate to fix this tax for Germany at 500 gold marks per hectar litre, especially since the tax provided for by the draft law of 1918 amounted to 650 gold marks. Moreover, while permitting necessary reductions, even for half of the consumption, which is considerable, it is only reasonable to confine these reductions within such limits that "detaxation" will not exceed an average of 75 per cent.

Therefore, half of the consumption, viz., 1,000,000 hectar litres, should be taxed at 500 gold marks per hectar litre, the other half being taxed at the average rate of 125 gold marks per hectar litre.

Under these conditions the tax collected on a gold basis should have an annual yield of at least 600 million gold marks -- a figure which may be admitted as the rent to be expected from a commercial alcohol monopoly.

8 - ACETIC ACID

There is already a monopoly in Germany for this substance as to which we have but little information.

The yield at any rate is very meagre, and it does not seem interesting to study the creation of a commercial monopoly for this substance.

9 - SUGAR

The consumption tax for sugar in Germany before the war (14 marks per hundred kilos) represented about 25 per cent. of the selling price of this commodity (50 to 60 marks per hundred kilos). It yielded at that time 174 million marks yearly.

Under the present regime sugar yields 50 marks per hundred kilos, which, at the average rate for March 1923, (5061 paper marks = one gold mark), for example, represents 1/100 gold mark, or 1/1400 of the pre-war rate. This rate represents at the selling price of 135,000 paper marks per hundred kilos, in force in March 1923, a tax of .04 per cent. of the selling price. The ridiculously low yield of this tax will, therefore, be considerably further diminished because of the delay of the payment over the six months put into force April 1, 1923.

In France and in England respectively sugar is the object of a tax of 52 francs, or 18 gold marks, and 1 1/2 pounds, or 23 gold marks, per hundred kilos, representing respectively 13 per cent. and 20 per cent. of the selling price (400 francs per hundred kilos in France and £ 6. 5. 0. in Great Britain).

To fix the tax on sugar in Germany at 10 gold marks per hundred kilos is, therefore, moderate and will not lead to a selling price superior to 60 gold marks per hundred kilos, the pre-war price, while the selling prices are respectively in

England and in France of 116 and 145 gold marks per 100 Kgs.

The returns from the tax on sugar in Germany under these very modest conditions will assure, for the 1.5 millions of tons of sugar consumed in Germany, a revenue equivalent to 182 millions of gold marks. This is the figure which may be taken as the base for the annual income to be secured from a monopoly on sugar. It is very much less than would be produced by a tax corresponding to the pre-war tax.

10. SALT TAX.

The 1915 German tax on salt of 12 marks per 100 kilograms has not been changed, in spite of the depreciation of the mark, which is to say that taking the average value of the mark in March, 1923 (5,061 paper marks for 1 gold mark), the tax valued 1/5000th of the tax applied before the war.

The total tax return, which was 68 millions of gold marks in 1915 has thus passed to the equivalent of 99 millions of gold marks.

Considering the nature of this product, there will be no inconveniences in applying to it the pre-war tax (12 gold marks per 100 kilograms) on a gold basis.

The annual consumption in Germany being slightly superior to 600,000 tons, the returns from this taxation would be equivalent to 72 millions of gold marks, and this is the return that could be counted on from a salt monopoly.

11. MATCHES AND CIGAR LIGHTERS.

The consumption of wax matches in Germany being of little importance compared to that of wood matches, we will consider only the latter. Taxed in 1915 at the rate of 0.01 to 0.015 mark per box, they gave a return of 23 millions of gold marks.

The rate of taxation at present in force is 0.04 to 0.06 marks paper per box, which is to say that taking the average value of the mark in March, 1923, for example (5,061 paper marks for 1 gold mark) the box of matches pays a tax which equals only 1/1000th of the pre-war tax.

The box/matches pays at the present time in France the equivalent of 0.02 gold marks.

It therefore seems reasonable to apply to this product a tax representing the minimum pre-war tax, i. e., 0.01 gold mark per box.

The annual consumption in Germany being 1,700 millions of boxes, this duty represents a return superior to the equivalent of 15 millions of gold marks, the sum representing the minimum return to be expected from a monopoly on matches.

In taxing cigar lighters (brquets) the equivalent of 1 gold mark each, a moderate tax compared with that imposed in other countries (Belgium 5 francs per cigar lighter), a supplementary sum of 4 millions of gold marks will be obtained for an annual consumption which is superior to 4 millions of cigar lighters.

Summing up, by including wax matches and cigar lighters, the monopoly should easily furnish a return around 20 millions of gold marks.

12. LIGHTING DEVICES.

This is a question of incandescent globes, gas mantles, carbons for arc lights, mercury vapor lamps, etc.

These various articles are assessed a tax per piece, according to the tariffs fixed by the law of July 15, 1909 modified by that of April 9, 1922.

Before the increases in tariffs introduced by this latter law, this tax produced (1900/21) 1.2 millions of gold marks per year.

The tax rates having been quadrupled without causing any reduction in consumption, it is reasonable to expect from a monopoly on the sale of these articles, within the limits of the taxes now imposed on a gold basis, an annual return of around 4 millions of gold marks.

13. PLAYING CARDS.

Germany consumes annually four to five millions decks of playing cards, manufactured in large part within its own territory.

The taxes at present imposed give a very small return, and this article does not appear to be of sufficient importance to justify the establishment of a monopoly.

14. SWEETENING SUBSTANCES.

The return of the monopoly on these substances, in force in Germany for the past several months, appears to be around 1/4th of a million of gold marks per year.

little

We have at the present time very little information on this organization, but we believe that for a first calculation it may be neglected, in view of its small importance, for a study for the return which a monopoly would produce.

15. COAL.

The tax on coal was created in Germany during the war by the law of April 9, 1917, which established an ad valorem tax of 20%. The law of April 9, 1922, increased this to 40%. A new law dated March 20, 1923, does not change essentially this rate, although giving to the Minister of Finances the power to reduce or to increase it within certain limits and under certain conditions.

Under the regime of the first of these laws, the return of the tax of 20% has been, for the fiscal year 1920/21 382 millions of gold marks, and for the following fiscal year 264 millions of gold marks. For the present fiscal year, for which the rate has been increased to 40%, the return will not represent more than around 200 millions of gold marks.

The progressive diminution of the gold return from the coal tax is due to the depreciation of the mark, which has acted unfavorably on the taxable gold value.

The price of coal in Germany has varied in effect in Germany during the years 1920, 1921 and 1922, as indicated by the following table:

Periods of Application	Price at the mine	Average rate of:		Price at the mine
		upper marks per ton	Price at the mine	
		Price (number of P.M. to G.M.)		Tax included Gold Marks
January, 1920	196.40:	14,207:		7.63
February, 1920	162.40:	22,413:		7.16
March, 1920	162.60:	18,991:		7.61
April, 1920	208.90:	14,334:		14.57
May 1, 1920 - Mar. 31, 1921	215.40:	13,744:		15.67
Apr. 1 - June 30, 1921	247.---:	15,432:		16.01
July & Aug., 1921	254.90:	19,155:		13.31
Sept. 1 - Nov. 30, 1921	248.70:	40,152:		7.09
Dec. 1, 1921 - Jan. 31, 1922	435.---:	45,542:		9.99
Feb., 1922	526.---:	49,500:		10.63
Mar., 1922	675.50:	66,400:		10.17
Apr. 1 - 19, 1922	600.30:	71,300:		11.22
Apr. 20 - June 30	1,019.60:	70,000:		14.40
July, 1922	1,367.---:	115,672:		11.63
Aug., 1922	1,790.---:	240,753:		7.06
Sept., 1922	4,616.00:	348,453:		13.25
Oct., 1922	5,606.---:	717,632:		7.92
Nov. 1 - 15	9,131.---:	1,557,813:		5.06
Nov. 16 - 30, 1922	12,765.---:	1,663,907:		9.33
Dec., 1922	25,613.---:	1,635,756:		13.95

During the three years in question the average value of average coal has thus equalled 12.5 gold marks per ton, this figure including an average tax of 3.6 gold marks per ton based on the rate of taxation of the latest date (40% ad valorem). Keeping this rate of taxation and putting its perception on a gold basis there would be obtained for the annual consumption of Germany (which is now 110 million tons), a return of 400 millions of gold marks.

It must be realized, however, that the taxation of coal has been possible in Germany only on account of the low price of coal expressed in gold, resulting mainly from the progressive fall of the mark.

It may be asked, once the mark has been stabilized, whether the price of coal will not rapidly reach the world value for this article. Should this occur it will no longer be possible to assess a substantial tax on this product.

This is why we abstain here from proposing the establishment of a monopoly for the sale of coal, it being impossible to base a fixed estimate of the return of a tax which it may become necessary to abandon.

16. MONOPOLIES FOR TAXES IN GERMANY.

The goods on which the creation of monopolies have been proposed in the preceding paragraph are those which at the present time are assessed a tax on consumption in Germany.

Nothing would prevent the creation of monopolies of sales of other products on which the consumption on the other hand is taxed in other countries, such as colonial products, and particularly coffee, tea, chocolate and cocoa.

There could also be added petroleum and its derivatives, benzol, etc.

Also it would not be impossible to consider the establishment of a monopoly on insurance, industry having attained a great development in Germany, also the establishment of monopolies of electric energy, gas, water, etc. Nevertheless, for these last, the question appears at first view to be very complicated, and the establishment of such monopolies may become very difficult in application.

17. Recapitulation.

The monopolies proposed in the preceding paragraphs bring us then to the following annual returns:

	<u>Billions of gold marks</u>
Tobacco	450
Beer	200
Non sparkling wines	50
Sparkling wines	5
Mineral waters & lemonades ...	
Spirits	600
Acetic Acid	
Sugar	150
Salt	70
Matches and cigar lighters ...	20
Lighting Devices	5
Playing cards	
Sweetening substances	
Coal	
Total	1,530

This figure could be increased considerably if one proposed on the other hand the maintenance of the tax on coal and the creation of a corresponding monopoly on the materials discussed in paragraph 15 above and which are not now taxed in Germany.

CHAPTER III

COAL DELIVERIES.

During the course of the three past years, Germany has delivered to the Entente 82 million tons of coal, for which she has been credited by the Reparation Commission with a value of around 900 millions of gold marks.

The average annual delivery has thus been slightly superior to 17 million tons, representing a "Reparation" value of about 300 million gold marks per year. The average price credited to Germany has thus been around 17 gold marks per ton.

It is not exaggerated to suppose, and recent events support singularly this supposition, that an annual delivery by Germany of 20 millions of tons of coal would not constitute in the future for that country a charge easily supportable.

Based on the prices current for German coal during the three last years, prices which are not high, the annual value of deliveries of coal in the future will thus come to 360 millions of gold marks, a figure which may be considered as the minimum.

It goes without saying that these deliveries suppose a corresponding credit written into the German budget.

We are not considering here the value of other deliveries in kind that Germany can execute, for example: dyestuffs, pharmaceutical products, chemicals, etc., value which can be taken into consideration in case of need, to complete the sum to be guaranteed.

CHAPTER IV

GERMANY'S OBLIGATIONS.

We have seen in the preceding chapter that there could be expected from the leasing of the exploitation of the railroads of Germany an annual return of ----- 1,000 millions of G. M.

The considerations of Chapter II lead us to recognize for the leasing of monopolies on tobacco, beer, wines and spirits, sugar, salt, matches and lighting devices, an annual return of ----- 1,500 do
And we have seen that estimating the annual value of

Reparation coal deliveries in the future at a very modest evaluation, we have	_____ 250	do
There is arrived at, the annual sum total of	_____ 2,870	do

The estimates on which these results have been based have always been most reasonable, especially in that which concerns the eventual return of the leasing of monopolies on articles of consumption, and the resulting figures may therefore be considered as very moderate, and even susceptible of eventual augmentation.

This sum does not take into account other resources which could be used in payment of reparations due by Germany, especially the participation in industrial profits (a subject covered by another study), and the returns on customs duties.

(Translation)

ANNEX II OF THE BELGIAN PROJECT OF 28 APRIL, 1923.

Allusion has frequently been made to the possibility of finding a partial cover for the service of the "Reparations" Debt in a participation of the Allies, either in the capital or in the revenues of German industrial and commercial enterprises.

Numerous systems more or less precise have appeared on this subject. Among all the schemes which have been issued, the most interesting appears to be that which provides for the participation of the Allies in the profits of German industry and commerce, under the form of the perception of a true head tax on revenues of this nature.

This perception may be conceived of in the following manner: All German industrial, financial and commercial enterprises, other than retail houses, intermediaries and enterprises of too little importance, whether operating in the form of stock companies, limited liability societies, corporations, commission houses, etc., or private enterprises, would be obliged to deliver to the Reparation Treasury "Bonds of Participation". These Bonds would give the right to 25% of the net profit realized by these enterprises.

The payment to the Reparation Treasury of the corresponding part of the profit would be for each enterprise, an obligation of the same kind as the payment of taxes to the State, subject to the same privileges and, eventually, to the same methods of collection.

The Reparation Treasury would have at its disposition all elements necessary for the verification of the declared profits by the enterprises (examination of balance sheets, profit and loss accounts, correspondance, archives, etc.), and all powers necessary to prevent fraud, dissimulation of profits, etc.

Moreover, sanctions would be provided by law to punish tentatives at evasion, dissimulations of profits, refusal of information, etc.

An Arbitral Commission composed of representatives of the Reparation Treasury, representatives of German industry, of Allied and German (and eventually neutral) jurists, would decide eventual disagreements.

It is particularly difficult to estimate what will be the profits in the future of German industry and commerce.

Even going back to the past, there are no statistics on the totality of these enterprises. The only statistics on hand are those of the stock companies called "Aktien Gesellschaft". These may, nevertheless, be considered as the most important, if not by their number, at least by the amount of capital invested.

In what follows we deal only with these latter.

The number of the "Aktien Gesellschaften" has been, like the amount of capital invested, augmented considerably during the last ten years, as shown by the following table:

Year	Number of Aktien Gesellschaften	Total Nominal Capital Billions of Marks
1913	5,436	17.4
1914	5,505	17.9
1915	5,574	18.0
1916	5,539	18.3
1917	5,563	18.9
1918	5,579	19.7
1919	5,545	20.3
1920	5,657	20.9
1921	5,635	29.4
1922	9,669	104.1

This total nominal capital evidently does not give any information as to the market value of the shares. Going back to the stock quotations, it is seen that the stock exchange value of the total of this capital, has changed from 30.7 milliards of gold marks in 1913, to 724.3 milliards of paper marks in 1922.

By transforming into gold marks the stock exchange value of this capital, it is seen that the increase in quotations in paper marks has never been sufficient, and has been far from compensating for the diminution of the gold value of paper marks due to depreciation of the latter. It is for this reason that the total stock exchange value of 724 milliards of paper marks transformed into gold marks by the intermediary of the index numbers of wholesale prices would be only 5 milliards of gold marks in 1922 (against 30.7 milliards in 1913).

Is this to say that the real value of the enterprises has diminished in this proportion? Certainly not. The number of the societies has augmented. The old societies have increased their capital. Most of them have built new plant, made new acquisitions and considerably improvements, and finally, it is unquestionable beyond doubt that the real value of the whole of these societies is superior to the pre-war value. The fact that the stock exchange quotations do not take account of this situation is only one of the many consequences of the depreciation of the mark, depreciation which does not act except with a certain "decadence" on the price of stocks, as on the price of all other things.

To obtain a more exact idea of the present real value of German industry in the form of stock companies, it would perhaps be necessary to consider the gold value of the total capital quoted in 1913, that is 30.7 milliards of gold marks, and to add to that the gold value at the time of new stock issues:

- 1st: of the capital of the societies created since 1913;
- 2nd: of increases of capital made by the old societies.

Annex II of the Belgian Project of 24 April, 1923.

Part I.

Proceeding in this manner, the sum of 36.5 milliards of gold marks is obtained as the value at the time of issue, for the total of the stock companies in 1922.

We have thus two estimates: one based entirely on stock quotations of 1922 transformed into gold by consideration of the index numbers of wholesale prices which gives 5 milliards of gold marks; the other based upon the quotations of 1913 increased by value of stock since issued which gives 36.5 milliards of gold marks.

Which of these two estimates should be adhered to?

It is to be supposed that, the mark being stabilized and the general economic situation strengthened, stock quotations along with the prices of all other things would continue to rise and would tend to stabilize at a certain level.

On the other hand, it would be too optimistic to consider that these prices would come to correspond to pre-war prices.

The gold value of the total capital of the stock companies would thus end up by being established, after stabilization of the mark, at a level certainly superior to 5 milliards of gold marks (present gold value), and inferior to 36.5 milliards of gold marks (gold value on the 1913 base). It is not unreasonable to suppose that this level would be about midway between these two figures, and it could be hoped that when the financial situation of Germany would be stabilized, the market value of the shares of the stock companies would represent a total amount around 20 milliards of gold marks.

If, on the other hand, the profits distributed by these societies be examined, it is noticed that from 1913 to date they have increased from 9 to 25% of the nominal capital, and decreased from 5 to 3-1/2% of the stock exchange capital value.

It is only logical nevertheless to suppose that when the general situation will have crystallized the stock exchange value of the shares will stabilize in a manner to correspond to an annual dividend of 5%, similar to the pre-war revenue.

Under these circumstances, a revenue of 1 milliard of marks gold could be counted on. The participation of the Allies, therefore, would be for stock companies alone, around 250 millions of gold marks.

This estimate is given only as an example and is entirely hypothetical, considering the uncertainty as to the future situation of Germany.

It has as its sole object, to show that the study of the participation of the Allies in the profits of German industry is interesting, and is a plan to be considered when looking for means to cover the annuities of the "Reparations" Debt.

ANNEX III

TO BRUSSELS PROJECT OF APRIL 24, 1923.

There has come up for consideration, in recent studies, the question of securities to be affected to the financing of reparations.

These securities were as follows:

- 1° - the yield of the renting of railways,
- 2° - deliveries of coal, and eventually of other products,
- 3° - participation in the profits of German enterprises,
- 4° - Customs duties,
- 5° - yield of alcohol monopoly,
- 6° - yield of beer monopoly
- 7° - yield of tobacco monopoly,
- 8° - yield of sugar monopoly.

With respect to the last six of these securities, it is advisable to make an observation which is not without importance.

To affect as securities for reparations the yield of the Customs; a part in the industrial and commercial profits, and the yield on alcohol, beer, tobacco and sugar monopolies, evidently means the denying to the German budget of the corresponding receipts: In fact:

The Customs' yield ceases to be at the disposal of the Reich.

With regard to the participation of 25% in the profits of enterprises, it seems difficult to make it co-exist with the tax collected by the Reich on these same profits - the collection of this tax should therefore be abandoned.

Finally, the yield expected from monopolies on alcohol, beer, tobacco and sugar, seems inconsistent with the collection by the Reich of the consumption duties at present levied on these supplies.

It might therefore be asked whether the decrease in the receipts resulting from the abandonment of these taxes and duties would not be of such importance as to prevent the equilibrium of the German Budget.

This is what we propose to investigate.

It should first be noted that there would be little significance in referring to Budgets which have succeeded each other since the Armistice, and which were based on an unstable currency and presented increasing deficits.

One must try to understand what duties and taxes represent when considered in a balanced budget which is based on a stable or stabilized currency.

In German budgetary history of these last years, only one period permits of an investigation of this character. It is that which includes the months of April, May, and June 1923, during which the value of the mark did not vary to a great extent (1)

(1) Average	<u>H.G.</u>	: April 1923	: 68,9
	<u>M.P.</u>		
		May 1923	: 69,5
		June 1923	: 74,8
		Quarter :	71

During this quarter the total receipts of the Reich have been of 57 billion paper marks.

The expenditures have been:

General Administration	:	50,6	milliard	paper	marks
State monopolies	:	4	"	"	"
Peace Treaty	:	45,8	"	"	"

or a total of 80, milliard paper marks

It can therefore be seen that for this quarter the General Administration Budget of the Reich, excluding State Monopoly and Peace Treaty expenditures, has presented an excess of 27 milliard paper marks.

It can therefore be said that if the mark had maintained its value during the remainder of the fiscal year, the excess of the General Administration Budget at the end of such fiscal year would have been of about 108 milliard paper marks, sum corresponding to 1,5 milliard gold marks.

If you include expenditures on account of State Monopolies, the excess would amount to 23 milliard paper marks for the quarter, or 92 milliard paper marks or 1,3 milliard gold marks for the whole fiscal year.

What have been during this quarter April-June 1922 the receipts subject to duties and taxes which it is now proposed to deny to the Budget of the Reich? These receipts appear explicitly in the accounts published monthly by the German Administration, except those subject to the tax on profits of enterprises, which are included in the yield of the income tax. Excepting these latter, the receipts under consideration for the quarter April-June 1922, are as follows:

Customs Duties	:	2,941	million	P.M.,	or 5,1%	of the total receipts
						of the quarter.
Tax on the consumption of alcohol	:	1,055	"	"	or 1,8%	of the total receipts
						of the quarter.
Tax on the consumption of beer	:	149	"	"	or 0,3%	of the total receipts
						of the quarter.
Tax on the consumption of tobacco	:	2,441	"	"	or 4,3%	of the total receipts
						of the quarter.
Tax on the consumption of sugar	:	115	"	"	or 0,2%	of the total receipts
						of the quarter.

Total of the 5 categories of receipts : 6,701 million P.M., or 11,7% of the total receipts of the quarter.

With regard to receipts subject to the tax on profits of enterprises, these do not appear in the accounts of the Reich, as stated above. These accounts only give the total amount of the income tax returns.

However, it is not impossible to try and get an idea of the importance of receipts of this category. In fact we know that the net profits of stock companies have been in 1922 of 12 milliard marks. If you consider as a first approximation that the profits of stock companies represent one half of the total profits of German trade and industry, you will obtain a figure of 24 milliard paper marks for the year 1922. The 15% tax which, at that time, was levied on these profits, will therefore amount to 3,600 million paper marks for the year, or a quarterly average of 900 million paper marks.

This figure we may take, as a first approximation, as the yield of the tax on profits during the quarter April-June 1922. It represents 1,6% of the total receipts of this quarter.

As a whole, the seven categories of taxes under consideration have therefore represented, during the quarter April-June 1922, a yield of 7,6 milliard paper marks, or 13,3% of the total yield of the quarter.

It can therefore be seen that if there had been denied to the Reich receipts corresponding to the seven categories under consideration, there would have been left at his disposal during this quarter a sum of 49,4 milliard paper marks (instead of 57 milliard paper marks).

The excess of the General Administration Budget would have been reduced for this quarter from 27 milliards paper marks to 19,4 milliard paper marks.

For the whole year the excess of the General Administration Budget, through the exclusion of the seven categories of resources considered, would therefore have been brought from 108 to 77,6 milliard paper marks, that is to say from 1,5 to about 1 milliard gold marks.

It would have been brought down to 660 million gold marks if there had been taken off the 340 million gold marks which we have indicated as representing the value of coal which the German Government must pay to its industrials for reparation deliveries.

It can therefore be seen that the experience taken at a time when the mark was relatively stable demonstrates that the in spite of the subtraction of receipts corresponding to the guarantees under consideration, the German Budget of General Administration closes with an excess of about 1 milliard gold marks.

It seems therefore beyond doubt that in a normal financial situation (mark stabilized and Budget balanced) the 7 categories of receipts under consideration can be taken off the Budget without grave inconvenience to the balancing of the latter.

Ames 1835^a

SPEECH
OF COUNT BETHLEN

PRIME MINISTER OF HUNGARY

BEFORE

THE REPARATION COMMISSION



ÉDITIONS CONTEMPORAINES
ET IMPRESSIONS F. ESSERTIER RÉUNIES

53, RUE RÉAUMUR, PARIS

—
1923



REPORT

OF THE COMMISSION

ON THE

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SPEECH

OF COUNT BETHLEN

PRIME MINISTER OF HUNGARY

BEFORE

THE REPARATION COMMISSION

First of all I wish to express my thanks for the courtesy and promptness with which the Commission have granted my request for a hearing. The generous attitude, the humanity and moderation shown to Austria have convinced everyone that the Reparation Commission have been guided only by the principles laid down in the Treaty of Saint-Germain i. e. justice, equity and good faith.

I am not here to ask for the same measure of generosity which has been extended to Austria, but in support of an application which, as the Commission have doubtless seen from the Note of the Hungarian Minister at Paris, is practically limited to the temporary suspension of the Treaty charge upon such revenues and assets of Hungary which are indispensable to secure a loan. The necessity for obtaining even a small immediate advance is so pressing and the consequences of failing to obtain it are so grave that my colleagues in the Hungarian Government thought it imperative that the Finance Minister and I should ask you for the opportunity to put the facts before you in person.

Before dealing with the necessity for the loans I should like to be permitted to outline very briefly the events which have led up to the present financial and economic position of Hungary.

Until the Armistice, Hungary was an organic unit from the economic point of view, with an area greater than either Italy, Norway, or Great Britain and Ireland. By the Peace Treaty, Hungary was reduced to the size of Portugal, thereby losing 72 per cent in area and 64 per cent in population.

The reduction of an economic unit with a population of 21 million to a unit of 7 or 8 million, even if carried out under the most favourable circumstances and with the utmost goodwill amongst all those affected by the splitting-up process, must naturally involve great economic dislocation which can only be rectified by the progress of time. The reduction of Hungary took place under most unfavourable circumstances. The agricultural and in-

dustrial production of the country had suffered severely from the effects of a long and losing war; social unrest prevailed on all sides. A revolution had scarcely time to live and die before it was succeeded by Bolshevism — an experience in horror and crime which other European countries were mercifully spared. Then for six months what was left of Hungary was occupied by foreign troops. These had barely returned to their own country before Hungary was subjected to an economic and communications blockade by International Labour. It was not until 1920, nearly two years after the end of the war, that the economic life of miniature Hungary had opportunity to begin its struggle for existence. Meantime, the country had lost her richest agricultural and timber regions, the greater part of the territory which supplied her with salt, iron, coal, metals, and other raw materials for industry, as well as some of her largest textile factories and all her plant for paper manufacturing, besides suffering almost every conceivable visitation calculated to accentuate the normal dislocation of economic reduction and dismemberment.

I have ventured to recall the conditions under which present Hungary began her economic life, not with any desire to air grievances or bewail calamities, but in the hope of visualising fundamental economic difficulties with which we have had to contend during the last two or three years, and with which, to a considerable degree, we still have to contend. If you will be good enough to bear them in mind when you look at the present financial position of Hungary, which has been submitted to you with the Note already presented. I trust you will agree that considering circumstances we did good enough work in our uphill struggle. When the first opportunity arrived for Hungarians to reorganise themselves economically, that is in 1920, the Korona had already fallen to 2 1/4 Swiss centimes as compared with a pre-war value of 105 Swiss centimes. Since then the Korona has occasionally, in several months of 1920 and in the month of May 1921, been higher than the 1920 quotation, but

in the epidemic of depreciation in surrounding currencies it has been impossible to prevent the Korona falling. In the Note which has been presented, the Hungarian Government have mentioned their efforts to avert a collapse in the Korona. I should like to emphasise that point. Everything has been sacrificed to maintaining the purchasing power of our money. No one dare say or even suggest that we have endeavoured to dodge the penalties inflicted upon us by permitting our exchange to depreciate. Possibly we have gone too far in the other direction.

Pre-war Hungary being an agrarian country was in need of foreign capital. In order to secure the amounts needed for the service of her foreign debt she had to utilize the balance of her export trade and the financial balance of her migratory movement. By the loss of our Uplands, however, in 1922 the balance of the remittance from Hungarian emigrants in America dropped to 24 million gold crowns, making less than one-sixth of what pre-war Hungary received under this head. Our adverse trade-balance of 1922 represents, with an amount of 214 million gold crowns, more than 4/5 of our balance of payments. An improvement of our trade-balance can only be expected with the increase of our home production. Production and first of all agricultural production is the only means by which suitable commodities can be procured to be given in return for those indispensable necessities which we must import. It is true that as an agrarian country we can maintain ourselves with our own products, but besides provisions we also need other commodities, and a great many of these — provided formerly by home-production — must now be imported, while with respect to certain other goods our dependence upon foreign markets has greatly increased since the war. These necessities of life, e. g. wood, coal, iron, salt, paper, textiles we cannot dispense with except at the risk of exposing our production and the maintenance of our population to serious danger, in the same way as an industrial country would be unable to renounce the import of provisions. During the war the reduction of the world's industrial production was constantly increasing prices and people were postponing particularly the purchase of wearing-apparel. At present it is no longer possible for our population to postpone the purchase of wearing-apparel, lest our labourers might, for lack of clothing, be unable to go to work in winter time. One third of our imports in value are textiles while the greater part of the rest are either indispensable necessities of life and goods absolutely necessary for the keeping up of our production, or such commodities the renouncing of which would be equivalent to the destruction of our civilisation. A further decrease of our imports can, therefore, hardly be expected. In our balance of trade for 1921 imports were 306 million crowns in

excess of exports. Our balance of trade for 1922 shows, as against 1921, an improvement of 92 million crowns. Vigorous steps have been taken, as is shown by the progressive reduction of the deficit, to remedy the position. The importation of articles not fundamentally necessary has been prohibited or restricted, and foreign currency for payment of all imports or for any purpose can only be legally obtained through the Devizen Zentrale, which is under Government control. The re-creation of home manufactures for textiles and textile fabrics, leather goods and other necessities — formerly available within Hungary but now compelled to be imported — has been encouraged and assisted. However, results cannot be expected quickly, as industrial production within the present area of Hungary has been estimated in 1921 at 53 per cent less than for the same area in pre-war time. The production in present Hungary of our four most important cereals is also 35 per cent less than the pre-war figures for the same area. Neither industry nor agriculture have yet had time to recover from the war and from the shock of the events which accompanied and followed the economic reduction of the country. The decreased agricultural output is to some extent due to lack of capital for the purchase of machinery and artificial fertilizers, and to the lack of natural fertilizers. I perhaps ought to explain that the present export of cattle from Hungary is due not so much to any large exportable surplus as to the serious shortage of fodder which makes it impossible to feed the cattle. The dearth of foreign currency within the country also now compels the Government to encourage the export of anything that can possibly be spared in order to bring in the precious « sound money ». There has been, however, no tendency to neglect the stimulation of production wherever this was possible. This is shown by the fact that Hungary's sugar crop is now sufficient to meet her reduced consumption and in addition to provide a surplus for export, whereas in 1921 Hungary had to import 2,854 tons of sugar. In coal, also, Hungary's production increased from 5.5 million tons in 1921 to 6.4 million tons in 1922. The Hungarian people are not merely sitting down and wringing idle hands over misfortunes. I can assure you that the deficit of 214 million Gold Korona in our Trade Balance for 1922 is caused neither by lack of energy nor by extravagance in home consumption. I should particularly like to draw the attention of the Commission to the fact that Hungary's present exports of produce are partly due to the daily sacrifice made by her people, our internal wheat-consumption per head having fallen to 173 kg as against 188 kg in pre-war time. But despite these sacrifices and these efforts there will be another « passif » balance in the Trade figures at the end of this year. And unless the financial situation is alleviated, I fear that the

Trade Balance for 1923 will be even more adverse than in 1922.

The note distributed to the Commission has briefly described the present financial situation and its causes. The Finance Minister, if desired by the Commission, will explain these more fully and also submit in detail the plan of internal financial reorganisation which the Hungarian Government are prepared to ask our Parliament to execute concurrently with those foreign loans which we hope to obtain. I can assure the Commission that our financial position causes me the gravest anxiety. We have been between the Scylla of a falling currency and the Charybdis of a strangled production. The restrictions and other artificial measures we have been compelled to enforce in order to prevent the Korona racing after other depreciating currencies have naturally had a deplorable repercussion upon production and commerce. To-day it is impossible for us, with our adverse balance in foreign payments, to provide our industrial and other importers with the foreign exchange we know they legitimately need. We simply haven't got it to give. We cannot let them export the Korona, for that would bring our exchange tumbling about our heads. The Finance Minister will I think prove to your satisfaction that Hungarian taxation, at present, is in every respect as high as can be imposed, with hope of efficient collection, in proportion to the essentially decreased national revenue. A depreciation of 900 times in the exchange value of the Korona has in itself imposed a tragic tax upon a large section of the population.

You will doubtless ask, Why don't you cut down your State expenditure? We are; but you know the difficulties as well as I do. With most, if not all, Governments, To spend is Human; to economize, Divine. We are striving after divinity as hard as we can. In 1922 over 11,000 State employees were discharged, including 4,200 employees of State-owned enterprises (particularly railway and post employees) who were dismissed or pensioned. The Finance Minister has drawn up a plan whereby the number of public employees will be further reduced by 20 per cent till next October. He has also prepared a Bill making sweeping reductions in the allowances in kind to State employees and their dependents. We dislike the system of supplementing salaries by means of allowances in kind just as much as any of the financial authorities who condemn it; but it is one of those expedients we have been forced temporarily to adopt in order to avoid regular raising of salaries on the basis of a Living Index Number, which we are inclined to fear is even the greater evil.

Let there may be an impression that salaries in Hungary are paid on an extravagant scale, I perhaps ought to mention that for the month of April 1923, on the basis of the present

rate of exchange of the korona at 0.11 Swiss centimes, the annual salary of the Governor is only 13,200 Swiss francs, and that of a Civil Servant in a high governmental position of responsibility less than 1,000 francs. A director of the State Railway (having wife and one child) receives 916 Swiss francs a year, as compared with 12,810 pre-war; a railway workman 514 francs as compared with 2,280 pre-war.

The normal difficulties of finding employment for discharged employees are increased by a sentimental factor, which as every statesman knows, is even harder to face than financial and economic obstacles. We have over 322,000 refugees in our midst, those who formerly lived in what has now become territory of the Succession States. Many of these were employees of the Hungarian State, and only a small percentage of all of the refugees have yet been able to find employment. I have no desire before this Commission to enter into a discussion of the question why these people have sought sanctuary in what remains of Hungary. But in order to explain our financial position I am compelled to mention their presence, and I am sure the Commission will understand, without my touching upon anything of a political or controversial nature, how very hard it would be for the Hungarian Government to treat these poor people merely as so many superfluous State employees or to leave them, because at present unemployable, to die of starvation. We are, however, engaged on a plan whereby these refugees may cease to become, directly or indirectly, a charge on the State, but as with all our other proposed economies it is extremely difficult to put anything into execution so long as the deficit in the Budget and the whole financial and economic position depend to such extent upon the exchange value of the Korona.

In that connection I should like to point out that on account of a relatively large external debt the expenditure in the Hungarian Budget for interest and payments on foreign loans, which increase exactly in the same proportion as Hungarian exchange falls, is a more important financial factor than in the case, for instance, of Austria. Hungary has so far struggled desperately to pay her debts. We have met obligations in regard to pre-war State and private debts through the Clearing House and otherwise, within and even beyond our ability. We have paid interest to date on the relief advances which various Powers so generously afforded us in 1920/21. Now that we have to borrow to keep ourselves alive, we shall have to ask for generous funding arrangements from all our creditors. We intend to pay every penny we owe, but we must have time in which to do it. It would be ridiculously inconsistent for me to come here and ask you, gentlemen, to suspend some of the reparation charges held by your Governments merely to provide private creditors in your own and several other countries with full payment of their claims, which, if

paid, would leave Hungary in the same desperate economic and financial condition. Incidentally, I might mention that the cost of our deliveries in kind to the Reparation Commission are estimated in the current Budget at 10.3 and the expenses of Allied Missions at 1.9 million Gold Korona.

I hope that what I have said, taken in conjunction with the Note we have presented, may have been of some assistance in explaining our present dilemma. If we remove our restrictions on exchange and other transactions, the Korona will undoubtedly collapse and the financial position of the Government will become hopeless; if we retain our restrictions, the economic life Hungary will be slowly, but surely strangled. We have decided that the only way out of this dilemma is to endeavour to obtain external financial assistance. Therefore we have come to you to ask for the permission necessary to get it.

The Hungarian Government is ready to meet, and capable of carrying out, any engagements it undertakes in the national interest. A State which only recently suffered Bolshevism is safeguarded against a recurrence of the danger by the undimmed memory of its bitterness. The struggle to create economic life, despite all obstacles, which has been in progress since Bolshevism was wiped out, proves the resolute will of the Hungarian people to live.

Nevertheless the burden that can be imposed even upon a virile population has its limits. The capacity for self-sacrifice and self-help of any nation largely depends upon the nation's belief in its own future. I believe that the Hungarian people will make any sacrifice in the interest of their future, provided I can give them hope. I believe that they can make themselves a self-supporting economic unit among the nations. But if I can only tell them that the speed of the Note Press is to be increased to the speed with which the Korona falls, they will lose even the hope that they have. And I am afraid they would be justified. The natural end of recourse to the Note Press is inability to obtain the funds for continued public administration. When that point is reached, the road is clear for the suspension of law and order. Then to any charlatan there

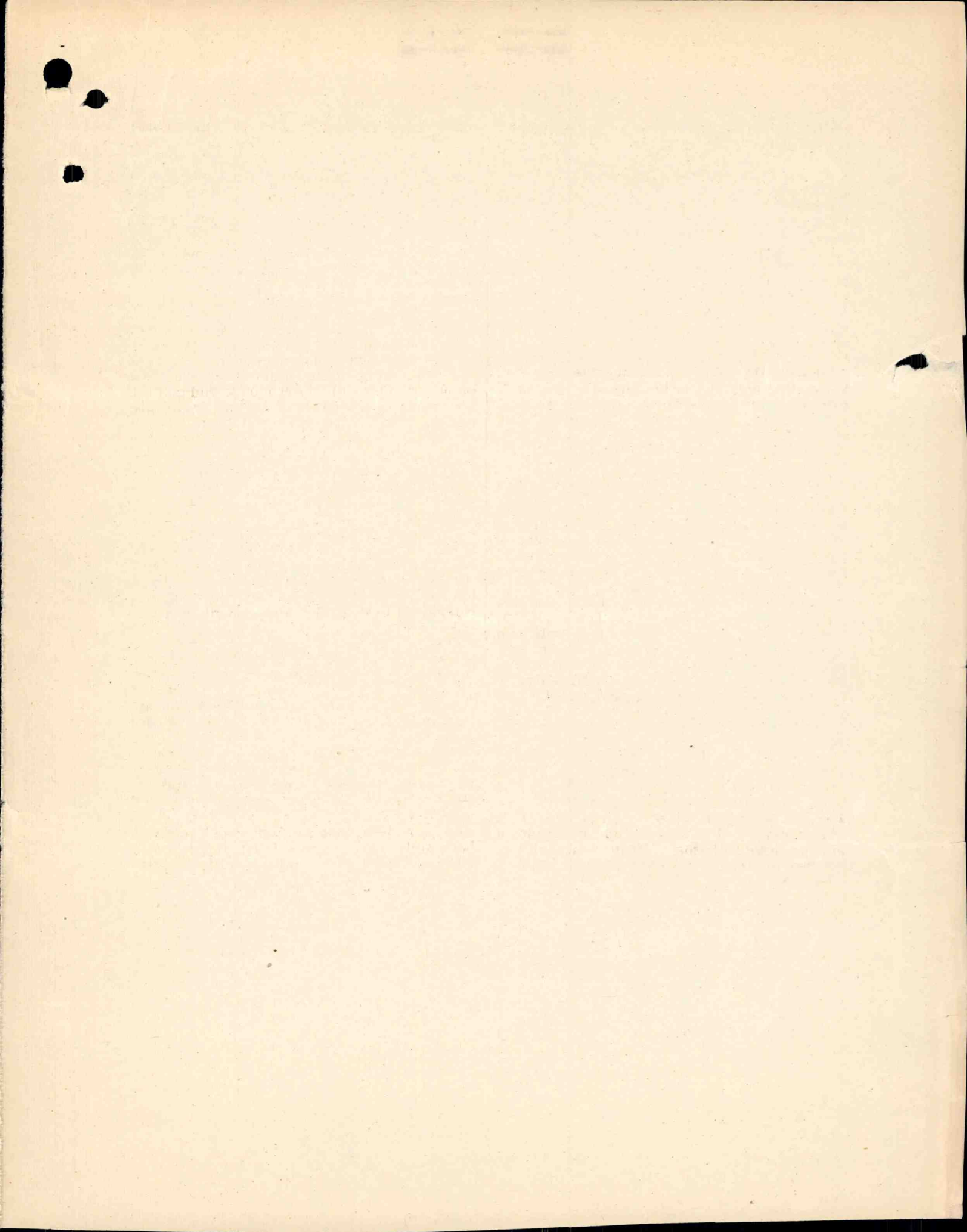
comes the opportunity to prey upon the country by declaiming specious remedies for the misery of chaos.

That is a black picture, but I do not think it is exaggerated. I earnestly trust that the Commission will enable me to return to the Hungarian people and to tell them that there is hope — hope of an existence worthy of a civilised nation; hope that misery will not be the sole reward of sacrifice and effort. Hungary is rapidly sliding down the slope on which Austria fell. There is a fighting chance — a good fighting chance, I believe, — to arrest that fall, provided Hungary is able in the immediate future to obtain the external financial assistance which is needed to give effect to her own self-help. Surely the self-interest of the creditor States and, above all, the economic and political well-being of the whole of Europe justify giving Hungary the opportunity to obtain the aid she needs.

Therefore in the name of my Government and in the name of the Hungarian people, I beg that the Reparation Commission will grant the suspensions requested in our Note and permit us to utilize our resources. The proposal regarding the immediate advances involves very little, if any dispensation, while the Long Term Loan merely requires an approval in principle which is not binding until the Commission have approved in detail the proposals which the Hungarian Government must submit at a later date.

If the Commission so desire, the Hungarian Government will 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.

I apologise for having taken up so much of the Commission's time. My excuse is the gravity and the urgency of the financial and economic crisis in Hungary and also my conviction, based upon what has been done in the case of Austria, that the Commission desire to hear fully and to treat fairly those nations whose destinies they control to such important extent.



Marquess Curzon to Count de Saint-Aulaire
(and Baron Mouchour)

Foreign Office, June 13, 1923.

Your Excellency,

His Majesty's Government have given their careful attention to the communication which your Excellency made to me verbally on the 11th instant on the subject of the fresh proposals for a settlement of the question of reparation put forward by the German Government.

2. These proposals, your Excellency informed me, the French Government could proceed to discuss with their Allies only after German passive resistance in the Ruhr had ceased -- a condition the fulfilment of which it is accordingly suggested that the British Government should join their Allies in demanding from the German Government. Your Excellency was good enough to make to me at the same time a brief statement of the principles on which the French Government declare they will be guided in entering upon a discussion of the German proposals. They are the following:-

- (i) Passive resistance having ceased, the occupation of the Ruhr would continue, but under altogether different conditions, and with the cooperation of German organizations.
- (ii) France can sacrifice no part of her share of the A and B bonds, but would agree to give up a portion of C Bonds, which could be employed for the payment of the inter-allied debts.
- (iii) The French Government recognize that Germany needs a certain time for balancing her budget; but, having lost no part of her riches, Germany should be able to hand over to the Allies a certain part of such of her resources as can be immediately realized, viz:-
 - (1) The railways on the left bank of the Rhine, which could be handed over to a company in which France, Belgium, Great Britain, and even the Rhineland would hold shares.
 - (2) Certain coal-mines in the Ruhr, appropriated by the German Reich, which might be handed over under similar conditions to an inter-allied company.
 - (3) Deliveries in kind, to be specified.
 - (4) The yield of the customs duties, which might at once be levied in gold or gold values and placed at the disposal of the Allies.
 - (5) Lastly, a certain proportion of the foreign exchange resulting from the sales of certain important exports, which would, in conformity with the principles accepted by Germany herself, be handed over to the Allies, the levy of the 25 per cent. being adjusted to Germany's economic requirements.
- (iv) In the occupied territories it would be for the Allies themselves to collect the ceded revenues.

3. In considering the several issues raised by your Excellency's communication, His Majesty's Government find themselves confronted with a number of difficulties arising from an imperfect understanding of the precise import of some of the French propositions. I am accordingly charged by my Government to beg that they may be favoured with fuller particulars on the following points:-

What is the exact meaning attached by the French Government to the demand for the cessation of passive resistance? Is it a demand for the withdrawal of all enactments or orders directly emanating from the German Government by which their people are enjoined to refuse the payment of taxes to the French authorities or to abstain from rendering to the latter services due to the German administration, such as the running of railways? Or is it suggested that the French Government will decline to discuss the reparation problem so long as individual inhabitants, or groups of inhabitants, of the Ruhr or other recently occupied regions decline to work for French officials or employers, or manifest disapproval of the occupation and of the steps which have been taken by the French authorities in consequence?

4. From the statement which your Excellency made to me, it would almost seem as if the cessation of passive resistance was regarded by the French Government as equivalent to active cooperation of the German population in whatever measures, coercive or other, the French authorities may see fit to take or order. This would be an excessive and an impracticable demand, even if it were conceded that French action in the Ruhr was justified and authorized under the Treaty of Versailles.

5. If, on the other hand, the French Government were to be content with the revocation by the German Government of all measures enjoining the duty of passive resistance, is it to be understood that such revocation would be followed by the return of the evicted and imprisoned population to their homes and the restoration of their properties?

6. His Majesty's Government further note that whilst they are asked to call upon Germany to undertake that passive resistance - whatever interpretation be given to that term - shall cease, nothing is said as to the inducements to be held out to her to yield on the point. Apparently all she is to expect as the price for her submission is that the occupation will continue, her own people cooperating for this purpose. How long then is the occupation to continue? and in what form? Is it to remain a purely military occupation? Or will it, perhaps by stages, assume the character of a police protection? Or, again, is it proposed to submit the territory to actual exploitation by or on behalf of France and Belgium, as would seem to be implied by the suggestion that it will be for the Allies themselves to collect the revenues to be made over to them in the occupied territories?

7. All these are points on which His Majesty's Government desire to be perfectly clear before considering whether they can contemplate the possibility of approaching the German Government in some way on the subject of passive resistance. But clearness on this point is not enough; the French Government themselves have repeatedly declared that the occupation of the Ruhr, which it is now sought to stabilize by eliminating Germany's passive resistance, is only a means to an end. The end is the payment of reparations. If the position be viewed in this light, a definite plan for settling the whole reparation question in a manner that can be accepted as practical and equitable by all parties imposes itself as a first necessity so soon as the stage of the cessation of all resistance to the occupation has been reached. It would obviously be of the greatest advantage that the plan should be ready. The knowledge that it is available would offer the strongest inducement to the

German Government to cease passive resistance.

8. Your Excellency's statement offers, it is true, some indications of the views of the French Government as regards some features of such a plan. Unfortunately, these indications are neither very precise, nor do they cover more than a small part of the ground. His Majesty's Government would welcome further particulars and explanations.

9. The proposal that whatever happens, France's share of the value represented by the A and B Bonds shall remain intact, implying that any necessary adjustments consequent upon a revised estimate of Germany's capacity to pay shall be made at the expense of others, and the suggestion that France should be allowed to liquidate her inter-Allied debts by the surrender of her share of C Bonds, revive, in general outline, proposals which the British Government felt unable to accept in January last, and do not appear to them now to afford a practical economic basis of settlement.

10. Again, whilst the necessity of granting a moratorium to Germany is recognized, this recognition is coupled with conditions as to immediate and continued payments and deliveries, which, at first sight, seem to render the moratorium itself nugatory. Perhaps this impression can be corrected by fuller explanations which the French Government may be able to give as to the system contemplated for the operation by inter-Allied companies of the railways and mines in occupied territory; as to the nature and amount of the proposed deliveries in kind; as to the customs duties to be attached by the Allies, whether on the frontiers of the whole German Reich or merely on the frontiers of the occupied areas; and lastly, as to the proposed arrangements respecting foreign exchange representing the value of exported special products and the consequential adjustments concerning the 25 per cent. tax, the reference to which in your Excellency's note is not clearly understood.

11. In any case, an estimate of the actual amount which the French Government anticipate might be realized annually by the Allies from these various sources would facilitate a correct appreciation of the economic situation.

12. In asking your Excellency to invite your Government to favour His Majesty's Government with explanations to elucidate the several points to which I have had the honour to call attention, I desire to give expression to their earnest hope that, by entering into a full and frank discussion of the important questions at issue, our two Governments will pave the way to the early re-establishment of that complete harmony of views and of action which it is their most sincere wish to promote and to maintain.

FRENCH REPLY DATED JUNE 14, 1923, TO BRITISH QUESTIONNAIRE
 DATED JUNE 13, 1923 (On account of Belgian Cabinet Crisis
 Note handed to Lord Curzon on JULY 6, 1923).

The French Government has examined with lively interest the letter addressed on June 13 by the Foreign Secretary to the Ambassador of the Republic in London. The Government is extremely sensible of the friendly spirit which marks Lord Curzon's communication, and is itself animated with the desire to pursue in full confidence with the British Government the conversations which have been begun. Nothing could be more agreeable to the French Government than to see the two Allied countries come at last to a complete understanding on this grave question of reparations which is for France one of vital interest.

Before replying, so far as it is able to reply at present, to the various questions put by the British Government, the French Government considers it necessary in order to avoid all possibility of misconception to make its position perfectly clear. France occupies the Ruhr after declarations of German defaults made by the Reparation Commission by a majority of three votes. She is, therefore, convinced that in these circumstances she simply made use of the right conferred upon her by the Treaty of Versailles.

The English Government itself was associated, on other occasions, in projects of territorial occupation, as for instance when Düsseldorf and three other towns were occupied, and when the threat was addressed to Germany by all the Allies of occupying the Ruhr itself. The fact that this year the Ruhr has been occupied by Belgium and France alone does not in the view of the French Government change the character of the measure which has been taken in execution of paragraphs 17 and 18 of Annex II.

"THE RUHR IS OCCUPIED"

The French Government does not ask the English Government to fall in with its own opinion; it recalls, however, that neither last December nor last January, did the English oppose any objection on the ground of legality and it considers that at this moment the question does not need to be discussed in that aspect. The Ruhr is occupied. Belgium and France have publicly declared that they will evacuate the territory only in proportion to the payments made by Germany. It would seem that there is no longer, therefore, any need to examine questions of what has been done. The German Government replied to the Franco-Belgian occupation by ordering and organizing the resistance of its officials, of its agents on the railways and of the great employers of the Ruhr.

The French and Belgian Governments are resolved not to examine any German proposal before the cessation of the resistance. They are, moreover, in a position to compel the cessation by the sanctions which they have already taken, and those which they have had under consideration for the future. They are convinced that if the British Government joined them in sending an injunction to Berlin in regard to this matter, the resistance would disappear much more quickly, because at this moment the German government thinks it can rely on the contradiction of attitude which exists between the Allies.

But the French Government has no doubt about the result which the Franco-Belgian efforts would produce even if they continued to be isolated efforts, and consequently if the French Government has entered into conversations with the British Government after having received the new German proposal, it is not at all because it is afraid of not being able to make the German resistance cease, but because it desires always to remain in contact with England and because at all times it would be happy to make common reply to Germany.

But just as it is disposed to resume conversations with the British Government on the subject of reparations, so it desires that the exchanges of views now going on between the Allies should until further notice remain confidential and should not be known to Germany. The sole motive which has made the French Government hesitate to begin these conversations at present is the fear that they may not result immediately in a common programme and that a public disagreement between the Allies may be a fresh encouragement for the German determination to resist.

REMARKS FOR SECURITY.

The French Government is, therefore, ready to continue the conversations through diplomatic channels, while making an appeal to the discretion of the British Government and preserving discretion on its own behalf; and it considers that there could not be any question of bringing together a conference of the Governments themselves before the day on which the ground has finally prepared agreement would appear not only probable but certain. In the light of these few preliminary observations, the French Government have pleasure in passing in review the various questions which Lord Curzon has been good enough to put on behalf of the British Government.

(1) When the French Government declared that the resistance organized by the Reich must cease before it began the examination of the German proposals, it did not think of making the Berlin Government responsible for individual acts or even collective acts which had been committed without its consent. But when the German Government gives orders to its officials to refuse to serve the Allied authorities, when it issues orders for the punishment of officials who disobey, of industrialists who take licences, and those who pay the Kohlensteuer, when it forbids its railway officials to fulfill their duty when it distributes considerable sums of money to the workmen to prevent them from working, when Chancellor Cuno encourages sabotage by sending to the family of a man condemned in common law--the man named Schlageter--a telegram of approbation of complicity, these are positive acts which imply the direct responsibility of the German Government, and which the Government has not only the power but the elementary duty to discontinue. These acts, which we cite, are only examples. It would be easy to furnish further examples and to show what are the acts of voluntary and premeditated resistance to which Germany ought to put an end. We repeat, besides, that we are certain to arrive rapidly at an arrangement, the population of the occupied territories having themselves several times demanded of Berlin withdrawal of the orders which vitally affect them.

(2) We have not said that the cessation of the resistance implies the active cooperation of the German population in all measures, coercive or otherwise, which the French authorities find it necessary to take or to order.

to consider that cooperation is an end to be attained. But it goes without saying that it must be established in equitable conditions which will permit the realization of the pledges without causing irritation and without violence.

(3) The cessation of the German resistance would justify the withdrawal of a certain number of measures which it has involved, and notably the return of a great part of the railway officials and employees who have been expelled. But that withdrawal will in no way be the object of negotiations with Germany, and there can be no question of an amnesty for those guilty of assassination and sabotage, or of restoring to their posts the higher officials who have provoked revolts or strikes.

(4) The English Government appears to believe, under No. 6 of Lord Curzon's letter, that France asks her to intervene at Berlin in order that the resistance should cease. We want to repeat that that is not the case. We shall rejoice to be able to be in accord with England on the question of passive resistance, which we consider as a preliminary, but we should find it very perilous that England appeared at Berlin either as a mediator or as a friendly supporter at the request of France. Germany would immediately conclude from that that she had had the last word in the Ruhr operation, a conclusion which is materially false, and she would take advantage of it to increase her demands.

We believe it to be useless and even dangerous to proceed by "inducements" to bring Germany to give way. If she gives way in these conditions we shall have to begin over again in six months, as everything continually has had to be begun over again during three years. It is only the affirmation of an unshakable will that can make Germany give way. If that will is the will of all the Allies Germany will give way at once. If it is only the will of one or two of the Allies Germany will give way all the same but she will give way less quickly. In any case, when she has given way the relations between France and Germany can be in the Ruhr what they were on the left bank of the Rhine, and consequently the military character of the occupation will become less and less accentuated and the number of troops will be progressively reduced to the minimum necessary for the maintenance of security.

(5) It is perfectly true that the occupation of the Ruhr is only a method of arriving at the payment of reparations. The English Government declares on this subject that the plan presented in January last by the French Government did not seem to offer means of settlement which were sufficiently practical, and had asked for complementary explanations of the different resources which the French Government had enumerated under a purely indicatory heading in its previous communications.

Before giving to these various points more detailed information the Government of the Republic wishes to make it quite clear that it has no power whatsoever from the French constitutional point of view to modify in any way the Treaty of Versailles. That Treaty has determined the manner in which the German debt ought to be valued. This debt has been valued at 132 milliards of gold marks (26,600,000,000) by the Reparation Commission, and the Commission afterwards set up, or more exactly, confirmed the schedule of payments of May 5, 1921. According to the Treaty the debt thus fixed can only be reduced with the unanimous consent of the Allies.

So considerations relative to the capacity to pay will therefore involve a reduction. They can only have as a consequence an adjournment of payments until the capacity of Germany has improved. In these conditions France who holds fast to the Treaty and simply asks for its application has strictly speaking no proposal to make. It is for those of her Allies who believe new arrangements to be necessary to state them clearly and to indicate at the same time how they consider it possible to reconcile them with the votes of the Parliaments which approved the Treaty of Versailles and authorized the heads of States to ratify it.

With the reservations contained in these observations, we repeat that there is good reason why the total of the German debt and the amount which she may appear able to pay in the next few years should not be confounded. The first is fixed, the second ought to be calculated by the Reparation Commission according to the possibilities of payments which Germany can offer in view of her present economic condition, and which the Notes of the Belgian Government make it possible to estimate.

It is this point of view that we took up when we examined certain the present resources of Germany and when we noted in particular that the Allies, even in the case of a moratorium, could collect the revenues of certain services seized as pledges in the occupied territory, such as the railways and the State mines. We will willingly examine the ultimate yield of these pledges and of all others when we have reason to hope that the British Government will not disagree with us on the principles which we have just indicated.

The French Government, moreover, recalls once more that of the total amount of bonds equal to the Inter-Allied debts it has decided to claim repayment from Germany of an amount only in such proportion as her Allies exercise their claims as creditors against France. The French Government again thanks the British Government for its communication, and remains entirely at its disposal to continue, through the Ambassadors this cordial exchange of views.

BELGIAN REPLY DATED JULY 8, 1923, TO BRITISH
QUESTIONNAIRE DATED JUNE 18, 1923.

The Belgian Government takes cognizance of the letter addressed on June 13 last to the French Ambassador in London. Dealing with the points raised in it the Belgian Government replies as follows:-

1. Passive resistance in the Ruhr can be considered as ceased when the German Government and all subordinate officials, including the Governments of the German States involved, establish the status quo existing on both banks of the Rhine before January 11, 1923, that is to say, when they withdraw all ordinances, decrees and instructions contrary to the status quo. The Belgian Government would not refuse to discuss the problem of Reparations even if some of the inhabitants or groups of inhabitants of the Ruhr and other occupied territories continued to refuse to work for the Occupation Authorities or continued to manifest disapproval of the occupation and the measures taken in consequence of it, provided that this resistance was not the result of direct or indirect orders from the Berlin Government.

2. The cessation of passive resistance must not be considered as the equivalent of active cooperation by the German population in the measures of the occupying authorities. All that is asked is that the population should not infringe the said measures.

3. The Royal Government thinks that as the result of the cessation of resistance an amnesty could be granted to a certain number of persons imprisoned or expelled, but every case should be the subject of individual examination. There could be no question of an amnesty in the case of an act of violence or sabotage directed against the occupying authorities.

4. The present form of occupation is the result of the refusal of the authorities, officials, and agents of the German Government to continue to carry out their obligations, and of the attitude of the population which has been threatened and incited by the German Government. The Belgian Government, however, would in the event of the cessation of resistance be ready to examine in agreement with the French Government the modifications necessary to give to their occupation a less military character and gradually to limit it to the measures indicated in the notification made to the German Government on Jan. 10 last.

BRITISH NOTE OF JULY 20, 1923 TO FRENCH, ITALIAN
BELGIAN AND JAPANESE GOVERNMENTS.

It is now seven weeks since the German Government, in their note of the 7th June, submitted to the Powers fresh proposals for settling the problem of reparations. The main points in the note were three: (1) A proposal to submit to an impartial international tribunal the question of Germany's capacity to pay, coupled with an undertaking to accept any decision so reached as regards both the amount and the mode of payment; (2) the assignment of certain specified guarantees as securities for payment; and (3) the summoning of a conference in order to work out a detailed scheme.

His Majesty's Government were from the start of opinion that, whether these proposals were adequate or not, they marked a sufficient advance to justify careful consideration with a view to the return of a collective reply. This view was concurred in by the Italian Government; but the French and the Belgian Governments expressed the view that only after passive resistance had been definitely abandoned by Germany would it be possible to enter into communication with her. In their anxiety to ascertain the precise meaning to be attached to this condition, a number of questions were addressed to the French and Belgian Governments by His Majesty's Government with regard both to the action which the German Government was invited to take and to the future position of the Ruhr, if and when it should have been taken. The replies that have been returned to these questions have not completely lifted the veil of uncertainty in which the situation is still in parts involved.

In the meantime, the question of reparations remains in suspense, and, while reasons for inaction or for refusal to take any action but that which commends itself to this or that Power abound, the international situation becomes weekly, and indeed daily, more acute; the occupation of the Ruhr, whether justified or not in its conception, fails to produce the desired effect; Allied unity is strained; payments by Germany on any adequate scale are not forthcoming. Moreover, the steady deterioration of German currency renders it impracticable for her to meet her liabilities under the schedule of Payments fixed in May, 1921. It may be that German policy has contributed largely to create this situation. But it is with the results, even more than with the causes, that we are now concerned, and it is to these that His Majesty's Government venture to direct the attention of their Allies.

The view was put forward by His Majesty's Government at the Paris Conference in January last, and is still held by them, that, in order to obtain from Germany the payments which the Allies are entitled to receive, German credit must be re-established, German currency must be stabilized, the German budget must be balanced, and German productivity must be encouraged. As long as the most highly developed area of German industrial life remains under military rule, and is made the scene of political agitation, it is difficult to see how the economic problem can be solved. It may be possible to break Germany's power of resistance by such means; but it will be at the price of that very recovery upon which the Allied policy depends for its ultimate success.

If it be the case that the so-called passive resistance of Germany is the main obstacle that stands in the way of that consummation, and if its abandonment will be the first step towards a positive advance, His Majesty's Government are quite prepared to join their Allies in pressing such a policy, as indeed they have already pressed it, upon the German Government, and in the proposed draft of a joint Allied reply to the German note of the 7th June, which they have the honour herewith to submit, the proposal has been definitely put forward. But if this plan is to be pursued with real hope of success, it would appear that two other conditions will require to be simultaneously satisfied. The first is that a renewed and serious attempt should be made to deal with the question of reparations by determining, not the liability of Germany - for that has already been laid down - but her capacity to pay. The second is that proposals should be made for the restoration of the Ruhr to that condition which will enable it to become an area of fruitful production, rather than one of international strife.

As regards the first of these steps, it will be acknowledged that the reparation figure laid down in 1921 no longer corresponds to the realities of the situation. Fresh calculations must sooner or later be made. It is in the best interest of the Allies that, whatever figure be finally decided upon by them, it should be accepted by the German Government as just and realizable. Furthermore, the situation is likely ^{not} to grow better, but to become worse, with delay. A recurrence to procedure by ultimatums may indeed produce tardy and reluctant capitulation; but little satisfaction will accrue if it fails to produce substantial deliveries either in cash or in kind.

The German Government have proposed in their recent note to allow Germany's capacity to pay, as well as the mode of payment, to be investigated by an impartial body. Under article 254 of the Treaty of Versailles, a reduction of the total amount declared by the Reparation Commission to be payable by Germany can be made, if explicitly authorized by the several Governments represented on the commission. There is nothing to prevent those Governments, or the Reparation Commission on which they are represented, from calling into council such impartial and expert assistance as they may desire. Fortified by such authority, the commission and the Governments would be in a strong position to invite from the German Government, who under the terms of the treaty would have a right to be heard, the fulfilment of the undertaking contained in the German note.

As to the composition of such an inquiry, this is a matter which should be determined by the Allied Governments in consultation. There should be no difficulty in agreeing upon a selection of competent persons enjoying their confidence as well as that of the public. Further, the advantage of American cooperation in this inquiry, whether in an official or in a unofficial capacity, scarcely requires emphasis, and is confidently recommended by His Majesty's Government to their Allies.

Should His Majesty's Government be so fortunate as to carry with them the assent of their Allies thus far, they will be ready without delay to enter into a more detailed discussion of the precise steps to be successively taken in order to carry out this plan of action. They only shrink from submitting more definite proposals now because experience has shown that hard and fast schemes are apt to impede rather than to promote a general agreement.

There remains the question, should the German Government accept the advice with regard to cessation from passive resistance, which it is proposed to tender to them, of the future position in the Ruhr. His Majesty's Government believe that the French and Belgian Governments will be the first to agree that the character of the occupation should in those circumstances undergo a swift and material change; that the numbers of the military forces stationed in the Ruhr and at other places occupied since January last should be reduced as rapidly as possible; and that assurances of ultimate and complete evacuation when the guarantees have been put into effective operation should not be withheld. Simultaneously, the various measures that have been promulgated in the name of the Rhineland Commission for coercing the civil population and impeding the free movement of persons and goods would doubtless be either cancelled or relaxed; as generous an amnesty as possible would be accorded; and the return of the expelled population and functionaries would be facilitated under suitable guarantees.

It has not been thought either necessary or desirable to include in the draft reply to the German Government the more precise indications which are contained in this dispatch. Attaching, as they do, the highest importance to the maintenance of Allied unity, and convinced that only by such unity will an early solution of the problem be found, His Majesty's Government have drawn up the draft reply in a spirit and in terms which they trust may be acceptable to their Allies.

They will, of course, be glad to consider any suggestions or emendations which any of the latter may think fit to propose consistently with the main lines of policy which it has been the aim of His Majesty's Government to expound and to defend.

Should the note meet with general favour, there would appear to be manifest advantages in its early dispatch, and His Majesty's Government express the earnest hope that there may be no delay in arriving at a decision on the subject.

The present communication, addressed to the Allies alone, has been added in order to acquaint them in greater detail with the plans which His Majesty's Government hope to be permitted to pursue in conjunction with them, and which may be thus resumed:-

1. The German Government to undertake to abandon the policy of passive resistance.
2. Steps to be taken upon the cessation of passive resistance for the resumption of the civil administration of the Ruhr, and to provide for the progressive evacuation of those areas.
3. A body of impartial experts to be set up, charged with the duty of advising the Allied Governments and the Reparation Commission respectively as to Germany's capacity to pay, and as to the mode of payment to be proscribed. The co-operation of an American expert to be sought, and arrangements to be made for German experts to be consulted and heard.
4. The same body, or a body similarly constituted, to be asked

to advise the Reparation Commission as to the economic sureties and guarantees to be pledged by Germany to the Allies.

5. Inter-Allied discussions to be opened with as little delay as possible, whether by conference or otherwise, for the purpose of elaborating a comprehensive plan of a general and final financial settlement.
6. So soon as the economic sureties and guarantees which Germany will have pledged to the Allies have been put into effective operation, the occupation of all German territory outside the limits laid down in the Treaty of Versailles to come to an end.

His Majesty's Government venture to submit the foregoing proposals to their Allies with the conviction that in the common interest positive action can no longer safely be delayed, and in the hope that they may help to facilitate a definite advance.

His Majesty's Government have not dealt in this note with the question of security, but they have already indicated their readiness to enter into sympathetic consideration of the subject whenever it may be thought desirable.

ENCLOSURE

DRAFT IDENTIC REPLY TO THE GERMAN GOVERNMENT.

On the 2nd of May the German Government addressed an identic note to the Governments of the United States of America, Belgium, France, Great Britain, Italy, and Japan, containing certain proposals for a settlement of the question of reparations.

To this note separate replies were returned by the French and Belgian Governments, acting in unison, and by the Italian, British, and Japanese Governments acting separately. These replies concurred, however, in regarding the German proposals as unacceptable, the main criticisms directed against them being that neither the total amounts suggested as payable for reparation, nor the mode of payment, nor the guarantees offered, were at all adequate, while settlement of any kind was made contingent on the evacuation of the Ruhr, pending which passive resistance by the Germans was not to be renounced.

The unfavourable reception accorded to these proposals having led the German Government to reconsider their attitude, that Government on the 7th June addressed a second communication to the same Powers.

In this memorandum, the German Government, affirming once again their determination to discharge their reparation debt, repeated a proposal

which they had before made, to refer to an impartial international tribunal the question both of the amount and the methods of payment, undertook to furnish such a body with all possible information and assistance in conducting the investigation, and promised to accept the decision at which it might arrive. Further, the German Government proposed certain guarantees or sureties for the regular payment of the liabilities thus fixed, involving, however, the grant of a moratorium of four years from the present date.

Finally, the German Government suggested a conference at which Germany might be assisted by oral discussion in arriving at a solution of all these questions.

The German note did not, on this occasion, contain any reference to the subject of passive resistance, not, it is presumed, from any failure to appreciate its peculiar importance, but because that topic had not been mentioned in all of the replies of the Allied Governments to which the note was intended as an answer.

The Allied Governments, anxious to terminate the phase equally of paper controversy and of international complication, will now give their views upon each of these matters.

In the Treaty of Versailles it was recognized by the Allied and Associated Governments that, while affirming the full responsibility of Germany for all the loss and damage which they had suffered at her hands during the war, they could not, in view of her diminished resources, expect to receive from her complete reparation for all such loss and damage. In other words, the necessity was admitted, even at that date, of adjusting the liability of Germany to her capacity to pay.

In May, 1921, the amount of reparation was fixed by the Reparation Commission at 132 milliards of gold marks. No power was given by the treaty to cancel any part of that obligation, except with the specific authority of the several Governments represented on the commission. If, therefore, the contention is now put forward that, owing to the altered circumstances of to-day, the figure of 1921 is too high and calls for reduction, it can only be by action within the framework of the treaty that such reduction can properly be made; and it is only from this point of view that the Allied Powers are free to consider the first request of the German Government in the note now under reply, namely, the request for an examination by an impartial international tribunal of Germany's present capacity for payment.

The Allied Governments, while unable to accede to this request in the form in which it was proposed, are far from thinking that they might not be assisted in the task devolved upon them by the treaty by the labours of competent and impartial experts; and provided that nothing is done in this respect that is inconsistent with the treaty stipulations, they are disposed to think that positive advantage might result from such an examination. It would bring the allegations of diminished capacity to the test of fact; it would reveal the actual position at the present moment; and it would remove all excuses for evasion.

The Allied Governments take note of the statement by the

German Government that they would welcome such an inquiry, and of their pledge to abide by the result.

If a binding arrangement were entered into, concerning the discharge of the entire liability, as thus determined, and as to the guarantees or sureties to be taken for the regular and complete payment of the total debt, the whole problem would assume a different aspect.

As to the guarantees or sureties themselves, the Allied Governments, while appreciating the effort of the German Government to advance beyond the vague indications of the earlier note of the 2nd May, must guard themselves from accepting these new proposals as adequately, or in the best possible way, meeting the actual requirements of the situation. Their economic value must largely depend upon factors of which no mention is made in the German note, such as the stabilization of the mark and the balancing of the German budget. A careful examination of these, or other, supplementary guarantees will be an inseparable feature of the inquiry which the Allied Governments are prepared within the limits of the treaty to initiate.

It must be clear, however, that no guarantees for the punctual discharge of accepted liabilities will suffice, unless provision is at the same time made for some form of international control of German financial administration. This is one of the subjects to which it will be necessary to invite the serious attention of the German Government, and without a settlement of which no final solution can be obtained.

When the German Government ask for oral discussion of all these matters, it may be remembered that, under the treaty, the Reparation Commission, while authorized from time to time to consider the resources and capacity of Germany, is also under an obligation "to give to the German Government an opportunity to be heard". This will allow for free consultation with the latter, and will enable it to make a full presentation of the German case.

Such is the reply of the Allied Governments to the main propositions of the German note. There remains, however, one important consideration which is the antecedent condition to a willingness on the part of the Allies to reopen the questions to which reference has been made. The occupation of the Ruhr valley by the armed forces of certain of the Allies has been followed by measures deliberately taken by the German Government to impede this policy and to delay the payment of reparations. These measures may be summed up in the familiar phrase "passive resistance". If the German Government now desire a resumption of inquiry, they will, in the opinion of the Allied Governments, be well advised to withdraw without further delay the ordinances and decrees which have organized and fomented this form of resistance, and openly and unequivocally to disavow the acts of violence and sabotage which have in some cases accompanied it.

Were this action to be taken without delay, not only would it be regarded as an evidence of that good faith which the German Government have once again avowed, but it would involve a reconsideration by the occupying Powers of the conditions of their occupation and a gradual return to the normal features of industrial life in the Ruhr. Such a reversion would possess the additional advantage that, by re-establishing the productive activity of that region, it

would enable the German Government more speedily and more effectively to discharge their reparation debt.

In making this reply to the German note, the Allied Governments have clearly demonstrated their earnest desire for the cessation of conflict and the pacification of Europe. In return they feel that they have the right to invite the cooperation of the German Government in the execution of this policy; and they have indicated with as much precision as is possible at the present stage the reciprocal steps by which each party can effectively contribute to the desired result.

BELGIAN REPLY DATED JULY 30, 1923, to
BRITISH NOTE OF JULY 20, 1923.

Your Excellency was good enough to inform us on July 20 of the views of the British Government on the plan for a common reply to the German Note of June 7, and Your Excellency was good enough to explain to us the considerations by which the British Government was led in drawing up its draft reply. The Belgian Government highly appreciates the profound desire for agreement which animates the British Government. It also is convinced that it is necessary to solve the question of reparations, and it shares the ardent desire to find this solution in agreement with the Allies. That is why it considers it useful completely to explain the reflections which have inspired it in Your Excellency's letter of July 20.

The British Government considers that the reparations question must be dealt with not by fixing Germany's obligations, but her capacity for payment. The Royal Government like the British Government seeks to obtain a practical solution of this grave problem within the four corners of the Treaty of Versailles, but if it listened to the advice to take into consideration Germany's financial capacity it would be deceived. It would be unjust still further to reduce Germany's debt towards the countries which she devastated and violated in contravention of all the laws of humanity and to leave those countries to bear the burdens of the internal and external debts which they contracted for their defence and the restoration of their ruins.

It is in this spirit that we understand the fifth proposal of the British Government, which provides for discussions between the Allies with the object of drawing up a detailed plan for a general and definitive financial settlement. Such a settlement is equally necessary for reasons of security. Germany, who is almost freed from her internal debt as the result of the depreciation of the mark is devoting enormous sums to strengthening her industrial and economic development, and she would be soon in a position to compete victoriously with the Allies in the world's markets and to prepare her military revenge. It is, therefore, necessary for the Allied countries which suffered most in the war to put in priority in reparation payments. Two methods have been specially contemplated in this connection--(1) the cancellation of inter-allied debts; and (2) as stated above, priority for the devastated regions. The Belgian Government, whilst appreciating and recommending the first method in order to facilitate the settlement of reparations, does not wish to enter into the details of this method, which does not directly affect it owing to the special regime granted her under the Treaty of Versailles and inter-Allied agreements.

As regards priority for the devastated regions, the Belgian Government thinks that this is rendered all the more necessary owing to the modifications made in the Schedule of Payments of 1921 to the figure established by the Treaty and arrangements made later. As reparations can henceforth only be partial, it is equitable to establish a scale in proportion to the damage suffered in favor of the devastated regions, whose restoration weighs heavily on the budgets of France, Italy and Belgium. The declaration of Feb. 14, 1918, contains the promise of the Allied Governments to see Belgium indemnified for the damage she suffered. Article 232 of the Treaty of Versailles pledges the complete restoration

of Belgium.

The British Government asks for inter-allied discussions for the elaboration of a complete plan for a general and definitive financial settlement. The Royal Government has already set forth its decisions in the Note recently handed by Baron Boncheur to your Excellency. It would be happy to have an opportunity to discuss the plan outlined in it with the British Government should the latter so desire.

The Belgian Government has no objection to the Reparation Commission receiving the assistance of capable experts, subject to there being no breach of the Treaty of Versailles, but it would like to know what the British Government understands by "important experts". The proposal might appear to be a condemnation of the Reparation Commission and give the Germans the illusion of arbitration. As such it might appear as a justification of their resistance and prepare worse trouble in the future. The experts' mission would be in accordance with the dispositions of the Treaty of Versailles, as the British Government very justly recognizes and its duty would be to assist the Reparation Commission. The Reparation Commission, which, by virtue of the Treaty is the official representation of the Governments in respect of all forms of reparations and is as the result of its experience in a better position to direct the work of the experts would put questions to them and indicate to them the pledges which it regards as the most effective.

The British Government suggests in this connection the assistance of an American expert, and considers the mode of reparations recommended by the experts, no matter whatever it may be must be accepted by Germany as just and capable of execution. The Royal Government takes it for granted that the conditions to which the Germans will have to submit will be such that they can not as is usual consider them as unjust and incapable of execution. The British Government suggests ~~ganz~~ has certainly not dreamt of asking for the explicit consent of a Germany which has hitherto always sought to evade her obligations.

The Royal Government is happy to note that the British Government has endorsed in principle the seizure of economic guarantees. These guarantees are absolutely indispensable to the Allies as a safeguard against the bad will hitherto shown by Germany. As the French and Belgian Governments declared on March 12 last, the occupation of the Ruhr was not expected to obtain immediate payments from Germany but as measure of pressure on her to force her to understand that she must carry out the engagements she has entered into and the evacuation will be carried out in proportion to the execution by Germany of her reparations obligations. The Royal Government naturally intends to remain loyal to this declaration. When Germany has carried out the essential conditions and completely renounced passive resistance, the Belgian Government will be quite ready in agreement with the French Government to make the modifications necessary to give the occupation a less military character and there will be a progressive evacuation. The occupation will then conform to the measures indicated in the notification to the German Government of January 10 last. The present rigours of the occupation have been imposed on France and Belgium as the result of the aggressive resistance provoked by the Berlin Government. The rapidity of the withdrawal will depend upon Germany's sincere renunciation of the struggle. The Belgian Government thinks that the regime which will be applied in the Ruhr upon the cessation of passive resistance will be such as will not impede the economic

and industrial life of this region.

If the explanations given so far on this subject are not sufficiently clear they will willingly be completed.

The Belgian Government has learnt with lively satisfaction that the British Government is ready to join France and Belgium in demanding from Germany the cessation of passive resistance and as a primary question the reconstruction of the devastated regions. At the same time although this resistance can be broken by the means of pressure at present in operation, British intervention would incontrovertibly have the effect of hastening this result for the common cause of reparations.

The Belgian Government attaches great importance to the control of German finances. The principal cause of the financial distress of the Reich resides in its mad expenditure and the deficit in the budget which arises from the reckless issue of paper money. In order to assure reparations in cash, Germany's finances must first of all be restored and for that they must be submitted to control, otherwise the moratorium asked for by Germany would only serve to render the situation more desperate. The deliveries in kind to the Allies must continue. The Royal Government remains strongly in favor of a collective Allied reply to Germany's Note of June 7.

Finally, the Royal Government is glad to learn that the British Government is ready to join sympathetically in the examination of the problem of security. By reason of her geographical situation, Belgium attaches the highest importance to this, and thanks the British Government for its declaration. It will later submit further details with regard to its attitude to these questions.

FRENCH NOTE OF JULY 30, 1923.

Your Lordship was good enough on the 20th July last, to acquaint me with the views of the British Government on the draft identic reply to be addressed to the German note of the 7th June, and you explained to me the considerations which had guided the British Government in the drawing up of this reply.

The French Government highly appreciate the great desire for an understanding which animates the British Government: moreover, they are themselves convinced that it is urgently necessary to solve the reparation question, and they eagerly desire to find this solution in agreement with the British Government.

It is for this reason that they consider it of advantage to set forth completely and without any evasion the considerations which have arisen out of an examination of your Excellency's note of the 20th July.

While prepared to examine forthwith with the British Government the German proposals of the 7th June last, the French Government continue to think that these proposals do not in any way betoken on the part of the German Government the will to submit to the execution of the Treaty of Peace. Furthermore, they recall that they do not contain the undertaking to put an end to the resistance by which the Reich has for six months opposed that execution.

On this point the British Government consider that the replies which France has made to them concerning the form which the occupation of the Ruhr would take after the cessation of passive resistance have not completely lifted the veil of uncertainty in which the situation is still in parts involved.

The French Government have replied to the best of their ability to the various questions which have been put to them on this subject by the British Government; if the British Government have other questions to address to them, the French Government are ready to return fresh replies, but we are bound to recall straightaway the principle of which the British Government have been aware from the beginning of our occupation, i. e., that France and Belgium will not evacuate the Ruhr except in proportion to the payments made by the German Government. After four years of waiting, of endeavors of every kind, of ultimatums not followed by results, of conferences proposed by the British Government, the conclusions of which have not been applied, of successive moratoriums granted to Germany, the French and Belgian Governments have arrived at the conclusion that the procedure to which Germany had recourse in 1871 must alone be applied henceforth; we will only abandon the pledge that we hold progressively

and in proportion as we are paid. As to passive resistance, if Germany discontinues it completely, we will introduce into our occupation the modifications which we consider compatible with the safety of the troops and engineers, and with the retention of the pledge in our hands. If we were to attempt any other procedure, we should ourselves repudiate the public declaration that we made at Brussels. We have too much confidence in the firmness of the British Government to suppose that they can ever seek to demand from us such a contradiction, which would result in our humiliation and in the raising of the spirit of revenge in Germany.

The British Government consider that the occupation of the Ruhr has not produced the desired effect; we do not share this position. There must, indeed, be no mistake concerning the object which we have pursued in the Ruhr. It was in no wise a question of securing there the immediate and total payment of reparations; we knew very well that the exploitation of the Ruhr by the Allies would not, in itself, procure the necessary sums, even if the German Government, in conformity with the Treaty of Peace, had allowed us to take the coal and collect the taxes which we had resolved to levy there. What we wanted was, first and foremost, to create in Germany, by a seizure of pledges and by coercion, the will to pay; it was to cause such inconvenience in the economic and political organization of the Reich, that it would prefer the execution of the Treaty of Peace to this inconvenience; it was to obtain what we have not obtained for four years, i. e., the recognition by Germany of her obligations, not from the general and theoretical point of view, but from the practical point of view. The passive resistance which Germany has opposed to us in the Ruhr is only the development in an accentuated form of the resistance which she has opposed to the treaty for four years; the Government of the Reich have continued exactly the policy which they have followed ever since 1920; and if the fall of the mark was precipitated, that currency has only followed the curve which had been determined by the prodigality of the German Government and by the efforts made by the industrials to put all their fortune out of reach of the Ruhrer and of reparations.

Again, all the information that we possess proves to us that if Germany had not naively counted on a division between the allies she would have quickly capitulated. It is the Germans and not France and Belgium who prevent the export of the products of the Ruhr; it is because the Germans refuse to apply for licenses that all commerce is shackled; it is because the Germans refuse to consign their goods to the Franco-Belgian Regie that those goods are not transported, and that Regie has only been set up because the German railwaymen in conformity with the orders of the Reich, refuse to run the trains; we are convinced that if the British Government were simply to let the Reich know that they disapprove of a policy which is ruining Germany and which threatens to ruin Europe order would be immediately restored.

The French Government are in agreement with the British Government in believing that Germany must re-establish her credit, stabilize her currency, balance her budget, and encourage her production. These are the counsels which the Allies have given Germany ever since 1920. First the Brussels Conference formulated them, then the Committee of Guarantees was created to ensure the realization of these reforms, but all these efforts have been in vain. Germany has, on the contrary, followed the wildest financial policy, scorning all counsels, throwing over all the principles of political economy established by experience. Her present ruin is not the work of the occupation of the Ruhr; it is the work of the Reich itself. It is not the occupation of certain industrial areas of Germany which will prevent a solution of the economic problem being reached; this solution is in the hands of Germany alone; only if the German Government and the German people themselves desire it sincerely can order be re-established in the finances which have been systematically damaged.

This passive resistance is really, as the British Government recognizes, the principal obstacle in the way of the re-establishment of a normal situation, and this passive resistance must cease, for it is contrary to the treaty and to the public welfare, and if the Allies were in agreement it would actually cease without any condition or compensation, the population being quite averse from it and even opposed to it.

In the opinion of the French Government, however, this cessation must be preliminary, and could not possibly be accompanied by immediate advantages. That is, moreover, what the French and Belgian Governments have publicly declared; they will only enter into negotiations with the German Government if that Government first give the necessary orders to cause passive resistance to cease; to go back on such a declaration would be to impose on these Governments a veritable disavowal, which would be a success for Germany and would show the German Government that there has been something to be gained in opposing the will of the Allies.

The two conditions which, according to the British Government, must be fulfilled in order that the cessation of passive resistance can be demanded of Germany are the fixation of Germany's capacity to pay and the return of the Ruhr to a state which allows of production.

As has been said above, we regret that we are unable to admit that these conditions should be simultaneous with the cessation of passive resistance, but we are bound, however, to examine them both.

The British Government consider that it is necessary to calculate afresh the figure of reparations, and that this figure ought to be accepted by the German Government as just and realisable. It is permissible to wonder why an estimate made to-day by experts, wherever they may be, should be more exact than that which was made in 1921, and why figures fixed to-day should be still correct in ten or fifteen years. Above all, since the war, in the present economic upheaval,

for which Germany is primarily responsible, it is impossible to foresee the narrow. The capacity of a State to pay is a thing essentially variable. To determine it once for all appears to us an essential contradiction, and the Treaty of Peace was careful not to fall into such an error. According to article 234, which the British Government quote in its note, the Reparation Commission, after fixing the amount of the damage for which reparation is due, and after drawing up the schedule of payment of the 5th May, 1921, has now to consider from time to time the resources and capacity of Germany: it has full power to extend the dates and to modify the form of payments. Thus, by its very constitution, the Reparation Commission has its eye constantly upon the financial and economic situation of Germany. It can at any moment, modify the forms and methods of payment and grant postponements. There is no reason to take away these powers from the Reparation Commission. The idea of fixing afresh a comprehensive sum for the total of the debt is one to which the French Government could not adhere. The same article 234 states that no cancellation of debt can take place except unanimously, and France will never give her consent to such cancellation, except as the French Government have already said, in the proportion in which her own war debts may be cancelled. Besides, the allegations to be expected from mere modifications of the Schedule of Payments may be considerable. If moratoriums are necessary, the Reparation Commission can grant them, as it has already done, but, in our opinion, it would be an act of the greatest imprudence to give judgment to-day, once for all, upon the capacity to pay of a country which has ruined itself of its own free will, and whose currency has no longer any value. We may smile in ten years with a Germany so prosperous and so powerful, that we should bitterly repent - Great Britain doubtless as much as ourselves - of having definitely fixed Germany's capacity to pay at the moment when she herself claimed this fixation because she felt that this capacity was at that moment at its lowest point.

Moreover, one must not hope that it will ever be possible to fix a figure which the German Government recognise as just and realizable; or if they recognise it as such, nothing will prevent them from saying the contrary the next day. The German Government accepted the Treaty of Peace and the procedure which was therein laid down. They accepted the schedule of payments of the 5th May, 1921, and besides when it was a question of the 232 milliards no one in the whole world considered that figure too high. During the Peace Conference, the American expert estimated Germany's capacity to pay at 120 milliard gold marks, and the British Government then fixed a much higher figure. It is essential to leave to the Reparation Commission all the suppleness which the Treaty of Peace gives to it.

We cannot forget that, in 1871, no one in the world thought of finding out whether France found the Treaty of Frankfurt just and realizable. No one then prevented Germany from occupying a considerable portion of French territory, pending total payment of an indemnity of 5 milliards claimed by a victorious country which had not been invaded and which had suffered no war damage, and which stole two provinces from the vanquished.

In order to determine the capacity of Germany to pay, the British

Government propose to invite the opinion of impartial experts, of whom it fixes neither the number nor the nationality. This word "impartial" experts is borrowed by the British Government from the German note itself, where it is accompanied by the epithet "international", and where it is clearly opposed to the Reparation Commission. The British Government, however, for their part, only employ the word "impartial" and they appear to desire to add the experts to the commission set up by the treaty. What, in that case, would be the relations of the experts to that commission? What, exactly, would be the force of their opinion? How and by whom would the experts be chosen? Would it be by the Governments or by the Reparation Commission? Would the experts be nationals of the Allied and Associated Powers or of neutral Powers? Before coming to a definite opinion ourselves, we should be glad to obtain detailed information on all these points.

The British Government rightly pointed out the advantage to be gained from the co-operation of an American expert. It is through no fault of the Allies that the American delegate on the Reparation Commission has not fulfilled the role which was expected of him, or that the United States, instead of actively participating in all reparation questions, have only played the part of observers. The Government of the Republic would be gratified if the American delegate were to take a more active part in the discussions of the Reparation Commission. But what other experts would be considered impartial? Who would guarantee their impartiality? Even though they might be acceptable to some, others might raise objections to them. The French Government would like to have definite information on such questions. Moreover, it must be borne in mind that at the request of the British Government, and organized in conformity with their views, a conference of experts has already been held, namely, the Brussels Conference of December, 1920. At this conference the Germans were given full opportunity of stating their case, and the reports and conclusions of the conference were presented to the Supreme Council in January, 1921. Mr. Lloyd George rejected these conclusions and stated that he could not take them into account. The suggested method of procedure is, therefore, far from reassuring.

The second question which the British Government wish to see settled, together with the cessation of passive resistance, concerns the occupation of the Ruhr: we have already pointed out above how the French Government regard this matter. There can be no question of the evacuation against mere guarantees, but only in proportion as payments are made. As regards the reduction in the number of troops, the modification of the ordinances and the readmission of expelled persons, these are matters which would have to be studied in consultation with the High Command responsible for the seizure of the pledge and for the security of the troops. Details of the measures which will be adopted cannot be settled in advance as they will depend on the attitude of the Reich and the population.

The British Government have summarized under six headings the ends which they have in view. Our observations on these points may be summed up as follows:

1. The German Government to undertake to abandon the policy of passive resistance. This, in our opinion, is the primordial question dominating all others and one which must receive priority of settlement.

2. There can be no ambiguity with regard to the progressive evacuation of the Ruhr: it will be carried out according as payments are made. Cessation of passive resistance will itself lead to the resumption of economic life in the Ruhr. The High Command will take every step compatible with the maintenance of the pledge and the security of the troops to render the occupation as light as possible. But France cannot enter either directly or indirectly into negotiations with Germany on these last points before all forms of resistance have ceased.
- 3 and 4. Conference of impartial experts. The French Government can only refer to the statements already made in this note on the subject: the Reparation Commission is a tribunal set up by the treaty through which it derives its authority: the Reparation Commission should only be guided by justice, equity, and good faith. What other body would have such an origin, such powers, and such rights? What other body could give greater guarantees of impartiality, and why should the German Government accept its conclusions whilst it refuses to recognize those of the Reparation Commission? The French Government would require to be enlightened on all these points.
5. The British Government desire that inter-Allied discussions should take place in order to elaborate a comprehensive plan of a general and final financial settlement. Has not this settlement been made? Has not the Reparation Commission full power to apply this settlement, to modify it, and to extend or shorten its execution? Would it not be contrary to the treaty to go back on the very principle of the settlement and on the fixation of the amount? In any case we should like to know what the British Government understands by a general and final settlement? Does this include the question of inter-Allied debts?
6. Finally, as regards the sixth point, the French and Belgian Governments can only repeat that they will not evacuate the Ruhr except against effective payments by Germany and in proportion as those payments are made.

In the last paragraph of their letter, the British Government allude to the question of security; we shall always be pleased to discuss this question with them, but it has no bearing on the occupation of the Ruhr, and it seems preferable that these two problems should be considered separately.

ANNEX B

ITALIAN NOTE OF AUGUST 2, 1923.

In answer to your note of the 20th July, in which, while informing me of the views of the British Government on the question of German reparations, you were kind enough to communicate to me a draft identic reply from the Allied Governments to the communication made to them by Germany on the 7th June last, I have the honor to make the following commendation to your Lordship in conformity with the instructions I have just received from my Government.

The Italian Government fully share the anxiety of the British Government to bring about, through the preservation of Allied unity, a European détente with a speedy solution of the problem of reparations and of the questions connected therewith, the chief of which is that inherent in inter-Allied European debts. The attitude of the Italian Government is determined besides by the position they have always clearly maintained on the question. In this connection they must moreover observe that the proposals already made by them, especially concerning guarantees and sureties, prove at the present moment to be the most likely to overcome many of the present difficulties.

The Italian Government are actuated by the firm desire to contribute in the most efficacious manner towards making the action of the British Government achieve a speedy and effective general understanding. In order that this general understanding may be reached, the Italian Government can only confirm the fact that they are convinced of the utility, in the event of difficulty, of a previous discussion between the Allies of the different points of view contained in the proposals of the British Government, the more so as the latter declare their readiness to examine any suggestions and amendments that may appear relevant.

The Italian Government have carefully considered the British proposals to have recourse, while keeping within the precise terms of the Treaty of Versailles and taking into account the attributions of the Reparation Commission, to the labors of special experts with the object of their giving the Allied Governments and the Reparation Commission advice regarding Germany's capacity to pay, the manner of payment, and the guarantees and sureties to be required.

The Italian Government are of opinion that the British proposals might form one of the effective means of exit from the present situation, although they cannot conceal from themselves the difficulty of such a work, especially in present circumstances. The Italian Government ought in any case to consider, in concert with the Allies, the best means of reaching an agreement concerning the composition, nature and limits of the commission or commissions of experts (their number and nationality), as well as the fundamental rules for the functioning of the same.

In point 6 of your Lordship's note of the 20th ultimo under reference mention is made of the desire of the British Government to elaborate a comprehensive plan of a general and final financial settlement. The Italian Government interpret

this desire in the sense that the aforementioned plan will include the repeated question of inter-Allied debts which, as the Italian Government has repeatedly and publicly declared, must be considered as absolutely inseparable from the question of reparations.

The fresh investigation of inter-Allied debts, in so far as it concerns particularly Italian interests, should take into account German joint responsibility for reparations due from the Axis powers, the question of reparations in kind and the costs of reconstruction of the devastated territories, which latter in the case of Italy have reached an enormous total.

With regard to the guarantees and surties, the Italian Government are of opinion that if the attitude which they originally adopted had been followed by the other Allies, many of the present difficulties might possibly have been avoided. The principles asserted by Italy in the draft submitted to the London Conference in December, 1922, and supplemented by the one recently elaborated in a special investigation by the Belgian Government form, in the opinion of the Italian Government, a suitable base of understanding for the constitution of those preventive pledges and technical controls from which a satisfactory solution of the whole problem is inseparable.

On the question of the cessation of passive resistance, as well as on the question of the occupation of the Ruhr, the Italian Government have repeatedly and publicly asserted their views against passive resistance, and also against any further occupation, and in favor of a gradual reduction of the Franco-Belgian military occupation. This opinion they maintain unaltered. The Italian Government are absolutely convinced that this latter question would be greatly facilitated from the political point of view also if a general agreement were reached on the technical problem of reparations and debts, including all questions connected therewith.

ANNEX II

JAPANESE NOTE OF AUGUST 3, 1923.

With reference to your Lordship's note dated the 20th July last, setting forth the views of your Government on the proposals of the German Government of the 7th June last for settling the problem of reparations, and also enclosing therewith the draft German reply to the German Government based on those views, I have the honor to state that, having telegraphed the contents of those two documents to my Government, I have received from them a telegram which fore-shadows their agreement in principle to the proposals of your Government.

While, therefore, I shall have the honor to communicate to your Lordship the full text of my Government's reply as soon as I am in receipt of instructions embodying it, it may not seem superfluous at this moment to bring the above information to your knowledge.

BRITISH NOTES OF AUGUST 11, 1923, TO
FRENCH and BELGIANS.

1. The most sincere disappointment has been caused to His Majesty's Government by the replies which they have received under date of the 30th July from the French and Belgian Governments to their identical notes of the 20th ultimo. With these notes was submitted the draft of a joint Allied answer which His Majesty's Government proposed should be sent to the German memorandum of the 7th June. The proposal represented an earnest effort on the part of His Majesty's Government, whilst showing the utmost regard for the known views of the French and Belgian Governments, to indicate a practical way of arriving as promptly as possible at a final settlement of the question of German reparations.

2. His Majesty's Government had understood that there were in the opinion of the French and Belgian Governments two main obstacles standing in the way of any fresh move in seeking such settlement: (1) the necessity of scrupulously respecting the rights of the Reparation Commission under the Treaty of Versailles as regards the fixing of the German debt and determining the modes of payment; and (2) the attitude of the German Government in encouraging passive resistance to the Franco-Belgian occupation and exploitation of the Ruhr.

3. With both these questions accordingly His Majesty's Government proceeded in their suggested reply to the German memorandum to deal in a manner which they confidently expected would commend itself to their Allies. How completely they have been disappointed in this expectation is made manifest by the contents of the notes in which the French and Belgian Governments have replied to their proposals.

4. His Majesty's Government acknowledge with much appreciation the courteous tone of these notes. If they now proceed to comment upon them they trust that their remarks will be received in the friendly spirit in which they are offered.

5. A reply seems to be all the more necessary since in the desire to avoid controversy at a critical phase, His Majesty's Government refrained from sending any rejoinder to the observations which the French and Belgian Governments communicated to them over a month ago in reply to the so-called questionnaire which I had addressed to the two Governments. Sooner than embark upon any controversy with their Allies His Majesty's Government preferred at that time to admit a definite plan of action under which they proposed that the suggested inquiry into Germany's capacity to pay should be conducted within the framework of the Treaty of Versailles and that the German Government should be called upon to withdraw the orders and measures by which they have enjoined passive resistance.

Furthermore, in order to comply with the declared objection of their French and Belgian Allies to any specific bargain being made on this point with the German Government, the British proposals were restricted to an intimation that if the German Government were to abandon passive resistance without delay, not only would this be regarded as an evidence of good faith, but it would involve a re-consideration by the occupying Powers of the conditions of their occupation and a gradual return to the normal features of industrial life in the Ruhr.

6. It is difficult to think in what way greater consideration could have

been shown to the Franco-Belgian point of view.

7. The reception, however, that has been accorded to these proposals by the French and Belgian Governments in their respective notes of the 30th July leaves His Majesty's Government notwithstanding the terms of courtesy employed under the painful impression that neither are their suggestions welcomed by their allies, nor is their offered cooperation held to merit consideration except on condition that no departure be made in any one particular from whatever France and Belgium declare to be their overriding views and decisions.

8. It is true that the Belgian reply appears at first sight to be less uncompromising than the French note. But on closer examination it is seen that the attitude of the two Governments is for all practical purposes identical and that though the Belgian Government appear to be especially anxious for the continuance of friendly conversations it is only upon condition that the substance of the Belgian claims is conceded in advance. Accordingly, His Majesty's Government ask leave to deal with the two replies in a single answer.

9. The first point that has struck His Majesty's Government is that in neither is there any allusion whatsoever to the terms of the draft reply to the German memorandum which His Majesty's Government had proposed. The Belgian Government indeed still remain in favor of the principle of a joint reply, but the French Government pass the proposal over in complete silence. And yet this was the main object to which in their desire for the continued maintenance of Allied unity, His Majesty's Government had devoted their efforts. The omission is hardly compensated by a series of argumentative passages, inquiries on points of detail, and offers of further discussions and conversations, holding out a prospect of an indefinitely spun-out controversy, whilst fundamental principles are only mentioned in order to declare that they do not admit of discussion.

10. It may perhaps be said that the Belgian reply does not reject as categorically as does the French, the proposal for a fresh investigation of Germany's capacity to pay. But the consent of the Belgian Government to such an inquiry is made conditional upon obtaining for Belgium and for France pecuniary advantages of a far-reaching kind, at the expense of their Allies, and notably of Great Britain. Such a suggestion appears to His Majesty's Government to reveal a palpable misconception of the situation.

11. It will not be contested that there can be no use in demanding from Germany more than she can pay, ~~xxxx~~ that is the maximum she can pay, is a question of supreme importance to all her creditors. It is a question of establishing a fact, on the ascertainment of which any practical arrangements or combinations for obtaining payment to the fullest extent possible must be based. The British Government accordingly proposed to take steps to ascertain this important fact. Belgium replies that she will not consent unless a corresponding advantage is obtained by herself and by France. His Majesty's Government could not willingly enter into any such transaction.

12. While the Belgian note does not indicate any precise claim, official and semi-official pronouncements by and on behalf of French and Belgian Ministers have made it clear that the French Government wish to insist on a minimum payment to them of 25 milliard gold marks over and above the amount required to meet their debts owing to this country and to the United States, and the Belgian Government on a minimum payment of 5 milliard gold marks for which or for part of which they now ask for further priority.

13. If the estimate made on a 5 per cent basis by M. Bohanowski, the Rapporteur of the French Budget which put the present value of the annuities under the Schedule of Payments at 65 milliard gold marks, may be accepted as an approximately correct basis of calculation, the share of France and Belgium as fixed by the percentages established under the Spa Agreement (52 and 8 per cent respectively) would not exceed 34 milliards for France and 5.2 milliards for Belgium, even if Germany were in a position to pay the total figures of the Schedule. But Belgium has already under the agreement which entitles her to priority payments of 2 1/2 milliard gold francs (4 100 millions), received approximately 1 1/2 milliard gold marks (4 75 millions sterling) a sum far exceeding the receipts of any other Power. Though this priority was given when the total sums expected from Germany were immensely larger than anything that is now likely to be received, it has not been reduced proportionately, and it has therefore operated to give Belgium an increasingly disproportionate share of actual receipts up to date. In addition, she has been entirely relieved of her war debts to the Allies, amounting to nearly 4300 millions sterling.

14. France, on the other hand, when counting on receiving 34 milliard gold marks from Germany, would have to balance this amount against her debt to this country, representing about 13 milliard gold marks, and her debt to the United States, amounting at least to the equivalent of 15 milliard gold marks, or, together 27 milliards, which being set off against the 34 milliards to be obtained from Germany, would leave France with a balance of 7 milliards. Then, therefore, it is now suggested that she ought to receive 26 milliards net, her total debts to Great Britain and the United States being cancelled, it will be seen that the demand is for an amount between three and four times larger than would on balance fall to her share under the existing agreements. It is difficult to see on what grounds a failure of Germany to meet her obligations by which Great Britain is proportionately sacrificed equally with her Allies can be held to justify a claim by France to be placed at the expense of her Allies in a far more favorable position than she would have occupied under the Schedule of Payments itself.

15. The Belgian proposal to grant a special priority for the restoration of devastated areas seems to rest on a somewhat artificial distinction as regards damages inflicted by the enemy in the late war. It is a suggestion not merely that priority should be conceded to material damages over the cost of war pensions, but that one particular type of material damage, namely, damage by land, should be selected for priority to the exclusion of other forms of material damage. No justification for such a proposal can be found in the armistice terms or in the Peace Treaty; nor is it easy to conceive what argument can be adduced to support it. Sunk ships and cargoes rotting at the bottom of the sea may not shock the eye like the ruined villages of France and Belgium. But they are equally material damage caused by German aggression, and represent equally heavy losses of national wealth. Great Britain's proportion of reparations would not in fact be seriously altered as a result of priority conceded to material damages. Nevertheless, His Majesty's Government would not be in favor of priority even on that basis, if only for the reason that certain other Allies would be gravely and adversely affected.

16. In practice the suggested priority would be equivalent to an alteration in favor of France and Belgium of the percentages of division fixed by the Spa Agreement. For it is clear that if Belgian and French claims in respect of their devastated regions are to be met in full before the claims of the other Allies are considered, and if at the same time the total sums recoverable from Germany

diminished, the loss represented by such diminution must inevitably fall on those not enjoying the privilege of priority.

17. His Majesty's Government cannot admit that there is any ground whatever for revising the Spa percentages. The principle of a percentage division is not affected by a change in the total to which the percentages apply. His Majesty's Government cannot leave out of account the position of their own country. Apart from the heavy material damages suffered by Great Britain, His Majesty's Government are now involved in heavy payments to meet unemployment in respect of which they have been compelled to spend over \$400,000,000 since the armistice. They alone among the Allies are paying interest on debts incurred abroad during the war, representing a capital sum due to the United States Government of \$1,000,000,000 at the present rate of exchange. They alone have been deprived in the Allied interest of foreign securities estimated at from \$700,000,000 to \$800,000,000, which would otherwise substantially assist in the payment of the British debt in America. Notwithstanding these gigantic burdens, Great Britain made an offer at the Paris Conference of January last to forgo her rights to reimbursement of her damages, and expressed her readiness by reducing the debts of the Allies, to treat her share of German reparations as if it were a repayment by her Allies of their debts due to her. It would be inequitable, and it is impossible, to ask the British taxpayer, already much more heavily burdened than his French and Belgian Allies, to make further sacrifices by modifying the Spa percentages for the benefit of France and Belgium.

18. Whilst the Belgian Government attach to their consent to an investigation by impartial experts of Germany's capacity to pay a condition which renders such consent of little value, the French Government reject the plan altogether, and appear to justify their refusal by putting a series of questions which might lead to an indefinitely protracted discussion at a time when prompt decision is of essential importance. As, however, M. Poincaré has asked for answers on the several points which he has raised, they may be briefly given.

19. Astonishment is expressed that anyone should question the justice of the Reparation Commission's decision in fixing the total amount payable by Germany at 132 milliards of gold marks (\$6,600,000,000) and M. Poincaré sees no reason why "an estimate made today by experts, whoever they may be, should be more exact than that made in 1921." It is not clear to what estimate made in 1921 reference is made. The Reparation Commission's finding of 132 milliards of gold marks was a simple estimate of the amount of the damages for which compensation was claimable under the treaty, without any regard to the question of Germany's capacity to pay them. It is true that the Schedule of Payments subsequently adopted, while purporting to provide for the payment of the full amount of the damages, in fact, granted substantial concessions by extending the period of payment beyond that laid down in the treaty, and by waiving the payment of interest for a long period in respect of a large part of the debt. These concessions represented, even in the opinion of the Rapporteur of the French Budget, a virtual reduction by approximately one-half of the sum of 132 milliards, and the fact that they were approved by the Allied Prime Ministers in drafting the Schedule of Payments (subsequently accepted by the Reparation Commission) effectively answers the contention that the sum, as originally fixed, was not considered too high by anybody. At the same time it cannot be said that the concessions were the outcome of anything that could be described as an expert inquiry into Germany's capacity to pay.

20. The French Government are quite right in declaring that the duty of ad-

justing the Schedule of Payments to that capacity in accordance with Article 224 of the treaty is one which still remains to be discharged.

21. They say that during the Peace Conference the American expert estimated Germany's capacity to pay at 120 milliard gold marks. His Majesty's Government have not been able to trace in their records any American expert estimate of 120 milliards, though they have found one of 60 milliards and another of 240 milliards. There was also a French estimate of 800 milliards, and a British estimate of 400 milliards. The truth, of course, is that at that time there was no experience of attempts to establish and enforce inter-State obligations of such magnitude to which experts could look for guidance. It is precisely because such experience has become available during the last five years that a fresh inquiry is urgently called for.

22. The duty of making the ultimate decision rests in part on the Reparation Commission and in part on the Allied Governments, seeing that if circumstances necessitate a cancellation of any part of the capital debt, the specific authority of the several Governments represented on the Commission is required. It is a duty which must in terms of the treaty be performed with sole reference to the resources and capacity of Germany. The Governments represented on the Commission in deciding whether or not to authorize the cancellation of a part of the German debt are in the position of trustees since the interests affected are not only their own, but also those of the Governments not represented on the Commission--a consideration which His Majesty's Government venture to think the French Government must have overlooked when stating that "France will never consent to such cancellation except in the proportion in which her own war debts may be cancelled".

23. An inquiry, therefore, by impartial experts into German capacity, held to assist the Reparation Commission and (should a cancellation of a part of the debt be regarded as necessary) the Allied Governments to carry out their duties under that article, clearly cannot be held to violate any principle expressed or implied in the treaty.

24. Both the French and the Belgian notes dwell on the special qualifications of the Reparation Commission to carry out itself any necessary inquiries. This is a claim which can not be sustained without serious qualifications. In the absence of an American representative (as originally contemplated), France and Belgium are in a position with the aid of the casting vote of the French Chairman to carry any resolution over the heads of the British and Italian representatives, and it is notorious that in these circumstances the Commission has become in practice an instrument of Franco-Belgian policy alone.

25. The French Government ask how it is proposed that the impartial expert commission should be constituted. His Majesty's Government consider that the more comprehensive its constitution, the greater will be the value of its findings. They would willingly see upon it nominees not only of the Powers entitled to reparation, but of the United States of America, of Powers which took no part in the late war, and it would seem desirable of Germany herself. If, however, the French Government would prefer any other form of constitution, His Majesty's Government would be happy to consider it.

26. As regards its relation to the Reparation Commission and to the Allied Governments: while for their own part His Majesty's Government would be entiro-

ly willing to enter into an agreement by which the several Governments would bind themselves in advance to recommend to the Reparation Commission the acceptance of the findings of the body of experts, they would, if the French and Belgian Governments are not prepared to go so far, be content that the functions of the experts should be advisory only.

27. Both the French and Belgian notes challenge the British contention that it is in the best interest of the Allies that whatever figure be finally decided upon as representing Germany's total liabilities, it should be accepted by the German Government as just and reasonable. They point to the fact that the German Government have in the past repeatedly failed to set up to their undertakings.

28. His Majesty's Government remain of opinion that an undertaking freely entered into because acknowledged to be just and reasonable, stands in practice on a different footing and offers better prospects of faithful execution than an engagement subscribed under the compulsion of an ultimatum and protested against at the very moment of signature as beyond the signatory's capacity, to make good. The Reparation Commission itself as well as the principal Allied Governments has had on occasion to recognize that the German Government was not in a position to carry out particular obligations which it had been compelled to undertake.

29. It will be remembered that the suggestion of an inquiry by experts of which the first idea originated with the American Secretary of State, included a voluntary engagement by the German Government to accept and give effect to whatever conclusions the experts might arrive at. His Majesty's Government are not convinced that such an engagement deserves to be treated as of no value.

30. The subject of the occupation of the Ruhr gives rise to a number of propositions in the French note to which it is necessary to reply. Whilst His Majesty's Government have indicated their readiness to join in advising the German Government to withdraw without delay the ordinances and decrees which have organized and promoted passive resistance, they can not subscribe to the thesis that passive resistance must cease unconditionally because it is contrary to the Treaty of Versailles.

31. France and Belgium hold that the occupation has been effected in virtue of the authority conferred by par. 16 of Annex II, to part VIII of the Treaty. The German Government have consistently contended that such an operation does not on a proper interpretation of that paragraph fall within the category of "economic and financial prohibitions and reprisals and in general such other measures as the respective Governments may determine to be necessary in the circumstances."

32. The highest legal authorities in Great Britain have advised His Majesty's Government that the contention of the German Government is well founded and His Majesty's Government have never concealed their view that the Franco-Belgian action in occupying the Ruhr quite apart from the question of expediency was not a sanction authorized by the Treaty itself. But they would be quite willing that this or any other difference respecting the legal interpretation of vital provisions of the Treaty—in so far as they cannot be resolved by unanimous decision of the Reparation Commission under par. 12 of Annex II—whether arising between the Allied Governments and the German Government, or between different Allied Governments, should automatically be referred to the International Court of Justice at The Hague or other suitable arbitration.

33. The French Government have endeavored to convict His Majesty's Government of inconsistency in now refusing to acknowledge the legality of the occupation of the Ruhr under par. 16 of Annex II, when on two former occasions they joined in the presentation of ultimatums threatening such occupation, and when in 1920 they actually participated in the occupation of Dusseldorf, Duisburg and Ruhrort. There is no inconsistency. The action then taken or threatened was never claimed to be in pursuance of the Reparation Clauses of the Treaty. The Allies jointly decided to threaten Germany with the occupation of further territory just as they might have threatened her with a renewal of war, for her failure to perform her Treaty obligations, some of which had no connection whatever with Reparations.

34. In the view of His Majesty's Government it cannot legitimately be claimed that the measures which the Allies are under par. 16 of Annex II authorized to take in certain emergencies include the military occupation of territory. Such occupation forms the subject of the special provisions of Part XIV. of the Treaty, dealing with Guarantees. It is the right to occupy the left bank of the Rhine and the bridge-heads which has been given to the Allies "as a guarantee for the execution of the Treaty". Moreover, article 450 particularly stipulates that if the Reparation Commission finds that Germany refuses to observe the whole or part of her obligations under the Treaty with regard to reparations, the whole or part of the occupied territories which may already have been evacuated, "will be immediately reoccupied". It would have been idle to stipulate expressly for such re-occupation in case of default on reparations if the Allies had already an unlimited right to occupy any German territory under another clause of the Treaty.

35. If His Majesty's Government have hitherto abstained from formally contesting the legality of the Franco-Belgian occupation as an act authorized by the Treaty, they have done so solely in conformity with the spirit of the declaration made by Mr. Bover Law at the Paris Conference in January last, that His Majesty's Government desired to avoid causing any needless embarrassment to their Allies. This should not be made a reproach to them. His Majesty's Government would not even now have taken up this question of legality had they not been challenged to do so.

36. The French and Belgian Governments argue that if only Great Britain had joined in the occupation there would have been no passive resistance and an abundant flow of reparation payments would have been assured. Holding the views which they did both as to the legality and the practical value of the operation, it was not possible for His Majesty's Government to take part in it. But even if they ~~did not~~ had done so and even if passive resistance had never been started or were now coming to an end it is not clear how this would bring the problem of reparations appreciably nearer to a solution.

37. The French Government have now declared that the object with which they entered the Ruhr was not the prompt or complete payment of reparations, but the breaking of Germany's resistance and the creation of the will on her part to pay. But the will to pay is useless without the power, and Germany's power to pay is in the opinion of His Majesty's Government likely to be rapidly diminished, and in the end extinguished altogether, by a continuation of the occupation with its stranglehold on the most important centre of the most productive and the most highly and delicately organized of German industries.

38. The parallel which the French Government seek to draw with German action

in 1871 can hardly be sustained. It is true that Germany refused to quit the French departments which she occupied with her forces until the indemnity of 5 milliards had been paid. But this occupation was expressly provided for by the Preliminaries of Peace of 1871. No similar authority can be cited in the case of the Ruhr, and the real analogy in the present case is the occupation of the left bank of the Rhine as provided for by the treaty, and from this no one has proposed to depart.

39. Further, it may be pointed out that the recovery after the short campaign of 1870-71 of an indemnity equivalent to 4 milliards of gold marks--(a considerable percentage of which could be immediately covered in gold and against which credit was given for the value of property in ceded territories, involving no actual expenditure by France beyond internal payments in compensation for the interests of French nationals dispossessed)--is not really comparable to the enforcement of a thirty-threefold claim against a country financially exhausted by four years of strenuous warfare and blockade. The case in which the indemnity imposed in 1871 was paid was largely the result of the credit facilities which France was able to obtain. Germany was on the other hand suffered from a complete inability to obtain foreign loans arising to a large extent from the long period which elapsed before her reparation liabilities were defined, and the world wide uncertainty as to her ability to discharge them. Yet in spite of this it is fair to state though His Majesty's Government are by no means satisfied with the performance that Germany has in fact paid in respect of reparations and the cost of the armies of occupation more than twice the amount exacted from France in 1871, as well as considerable sums in connection with the clearing offices and miscellaneous treaty obligations.

40. The French Government are in error in attributing to His Majesty's Government the suggestion that simultaneously with the advice to be given to Germany to abandon passive resistance, the Ruhr must be made to return to normal conditions of production. The suggestion made in the British note of the 20th July was that proposals should be made for the restoration of the Ruhr to that condition which will enable it to become an area of fruitful production rather than one of international strife. His Majesty's Government confess to a sense of surprise and disappointment at the difficulties apparently felt by the French and Belgian Governments in agreeing to so reasonable and so advantageous a proceeding.

41. Although in words of some vagueness it is intimated that France and Belgium may when satisfied that passive resistance has ceased consult together as to how far they may find it possible to lighten the burden which the military occupation of the Ruhr lays on the region, nothing tangible is suggested which would hold out any hope of the occupation being brought to an end, even when the avowed object of breaking Germany's will to resist has been attained.

42. His Majesty's Government believed that they were showing the fullest consideration for the position of France and Belgium as well as ensuring the more effective guarantee of continued and steady payments when they suggested that the occupation would naturally terminate from the moment that guarantees or pledges less economically harmful and more effectively productive than the occupation of the Ruhr should have been not merely devised and obtained but seen to be satisfactorily operating.

43. Even this suggestion is met by a definite refusal. Both the French and the Belgian Governments emphatically declare that there can be no question of evacuation except in proportion as payments are made by the German Government. Complete

evacuation is apparently not contemplated until the total German reparation liability is integrally discharged. The reiterated announcements to this effect, coupled with the insistence on leaving undiminished the total of 132 milliards of German indebtedness under the head of reparations can only be interpreted as an intention to remain in occupation of the Ruhr for a number of years which at best cannot be less than 36 (this being the minimum period over which the discharge of the debt is spread under the Schedule of Payments) and which, in view of the generally admitted improbability of the complete execution of the Schedule being found practicable under any circumstances, may be extended indefinitely, if not in perpetuity.

44. Such a situation of which the political quite apart from the economic consequences could only be described as disastrous cannot but be viewed by His Majesty's Government with the greatest concern. It would vividly conjure up the danger of international relations being affected in a manner threatening--to use the words of the 11th article of the Covenant of the League of Nations--to disturb international peace and the good understanding between nations upon which peace depends. His Majesty's Government cannot believe that the French and Belgian Governments will be able to reconcile the opinion of the world to the indefinite maintenance of so perilous a situation.

45. As it is, the occupation of the Ruhr is already having directly and indirectly a grave effect on the economic and industrial outlook, not only in Germany, whose capacity to pay reparations is rendered more and more precarious, but in the rest of Europe, if not the world, and not least in this country.

46. In their note of the 20th July His Majesty's Government further proposed that in order to arrive at a comprehensive plan for a general and final financial settlement, inter-Allied discussions should be opened with as little delay as possible. The Belgian Government reply that they will be glad to discuss such a plan if it be of the character that they have predicated in their note. The French Government, whilst questioning the propriety and apparently the legality of the suggestion, asks what exactly it means and whether it will include the question of inter-Allied debts. His Majesty's Government gladly avail themselves of this opportunity to explain their attitude on this subject. I have accordingly the honor to enclose a separate memorandum upon it. The main principle of the British scheme is that Great Britain is ready, subject to the just claims of other parts of the Empire, to limit her demands for payment by the Allies and by Germany together to a net sum approximating 11.5 milliards of gold marks, this sum representing the present value of the recently funded British debt to the United States Government. The concessions which His Majesty's Government may be able to offer in respect of inter-Allied debts must accordingly depend largely on the percentage of this sum of 11.5 milliards which they can recover from Germany. They can only be granted in a substantive form when the general reparation settlement for which His Majesty's Government are pressing has been agreed upon, and is such that His Majesty's Government can regard their share of the German payments as an asset to real financial value.

47. To this end the first step must be to fix the maximum sum which the Allies can reasonably hope to recover from Germany to be followed or accompanied by arrangements which will ensure the effective re-establishment of Germany's finances and credit on a sound basis, and will guarantee the punctual payment of the German debt by a system of control free from the economically unseasonal impediments inherent in the military occupation of the Ruhr.

to discuss sympathetically the question of future security with their Allies. The Belgian Government warmly welcome this offer. They will not, however, have failed to notice the remark of the French Government that the object has nothing to do with the Ruhr, and the consequent further postponement of the discussion to an unnamed date in the future. The Belgian Government will recollect from the discussions of 1922 that His Majesty's Government are not prepared to enter into any arrangement respecting the territorial security of Belgium apart from a similar arrangement in regard to France. Having regard to the new declared indifference of the French Government no useful purpose can be served by pursuing the matter.

49. The argument which has been put forward in this note may be summarized as follows: -

50. His Majesty's Government have at no time contemplated and do not now contemplate that Germany shall be relieved from all reparation payments. They are determined that Germany shall pay, up to the maximum of her capacity, the reparation to which Great Britain, equally with the other Allied Powers, is entitled, and which is needed to make good the losses sustained by this country in common with her Allies.

maximum

51. That Germany's capacity for payment may be is a matter which should be determined by impartial inquiry into the facts. It cannot be ascertained by casting up the amounts which Germany's creditors would like to receive. To ask for more than Germany's maximum capacity cannot assist in the actual recovery of reparations. It can only destroy the assets which Germany can offer to the Allies. To force liquidation is not the most profitable way of making recovery from a debtor with resources.

52. It is admitted that Germany can only make substantial payments if by the restoration of her public finance and a stabilization of her currency, a surplus is made available for reparation on her budget. Moreover, this surplus must be in a form in which it can be made available for external payments over the foreign exchanges. External debts cannot be paid by the collection of depreciating paper marks. In the view of His Majesty's Government forcible interference with the economic life of Germany even if it be consistent with the terms of the Treaty of Versailles cannot assist in the necessary restoration. Not only will it prevent the realization of any surplus for reparation, but by intensifying the disorder of German finance and currency, it will have the gravest reactions on trade.

53. His Majesty's Government, therefore, regard as doomed to failure the method pursued by the French and Belgian Governments to secure reparations. In spite of wholesale seizures the occupation of the Ruhr by France and Belgium has produced at great cost less receipts for the Allies, notably of coal and coke, than were forthcoming in the previous year. Moreover, His Majesty's Government feel that the resulting situation involves great and growing danger to the peaceful trade of the world and not least of this country. His Majesty's Government regard a continuance of the present position as fraught with the gravest risks, both economic and political. They consider the impartial fixation of Germany's liability at a figure not inconsistent with her practical power of making payment a matter of great urgency; and they have suggested what appears to them to be an appropriate means to this end.

54. When steps have thus been taken to ascertain the real value of the asset represented by German reparations, and to secure its realization without further depreciation, His Majesty's Government will be ready to deal as generously as cir-

circumstances permit, and in the light of their respective capacity to pay, with the debts due to Great Britain by her Allies. They cannot, having regard to the heavy material losses of this country, both during and since the war, and to the future tax burdens on its trade, admit that other countries are justified in claiming that the agreed percentages of reparation payments should now be further modified or changed in order of priority. But they remain prepared to add for no more in respect of the very large sums due by their Allies than will, together with reparation payments by Germany, meet the British war debt to the United States Government. Their policy in this matter is stated in the British proposal laid by Mr. Bonar Law before the Paris Conference in January last, and has not changed. It means that Great Britain would be prepared to waive, in the interest of a complete general settlement, a very large part of the amount for which the British taxpayer holds the due obligations of Allied Governments.

25. It is the hope of His Majesty's Government that the above explanations will convince the French and Belgian Governments of the reasonableness of the British position, and will win their assent to its acceptance. They are reluctant to contemplate the possibility that separate action may be required in order to hasten a settlement which cannot be much longer delayed without the gravest consequences to the recovery of trade and the peace of the world.

MEMORANDUM REFERRED TO IN ANNEX "I" IS AS FOLLOWS:

THE DEBTS MEMORANDUM

The Memorandum on Inter-Allied Debts referred to in the above Note is as follows:-

1. It is in the opinion of His Majesty's Government hopeless to deal satisfactorily with the question of inter-Allied debts until a better estimate is made of the amounts which Great Britain, on the one hand, and her Allies, on the other, are likely in fact to be able to recover from Germany for reparations.

2. His Majesty's Government adhere to the policy, which their predecessors have formally announced, of limiting Great Britain's total claim against her Allied debtors and Germany together to the amount necessary to cover the British debt to the United States Government, which, as recently funded, may be taken to be represented, on a 5 per cent. basis, by a sum of 14.2 milliards of gold marks, present value. This basis is already exceedingly favourable to the Allies as the British debt to the United States Government cannot be redeemed on such favourable terms.

3. This offer, in effect, means that Great Britain (whose material war damages were not less than one-third of those suffered by France) is content to forgo her rights to reparation under all heads, and to treat her own share of the German payments as if it were a reimbursement by her Allies of their debts to her.

4. Nay, the total amount for which she asks from the Allies and Germany together is, in fact, less than the amount of the Allied debts, being limited to the total of the British debt to the United States Government, without regard either to loans raised by Great Britain in the open American market or to the value of the American securities (estimated at £700,000,000 to £800,000,000) used to finance the Allied cause in America before the entry of the United States into the war, the loss of which, from the economic point of view, is the equivalent of the contracting of an equal amount of foreign debt.

5. Of the sum of 14.2 milliard gold marks, Great Britain is anxious to recover as large a percentage as possible from Germany, in order to be able to offer the maximum concessions feasible in regard to inter-Allied debts. But it is not possible for her to grant such concessions in a substantive form unless and until such a reparation settlement has been arrived at as will enable her to regard her share of the German payments as an asset of real financial value. His Majesty's Government greatly fear that a persistence in the policy indicated in the French note will make the prospects of such a settlement remote.

6. The only practical manner in which, in the opinion of His Majesty's Government, the question of inter-Allied debts can now be approached, is for the Allies to agree in the first instance upon the maximum sum which they can reasonably hope to recover from Germany. When such an agreement has been arrived at, His Majesty's Government will be prepared (provided that

the settlement is such as to make the German obligation a reasonably good asset) to write down, with due regard to the different circumstances of the respective debtors, the Allied debts owing to them, to an amount representing the difference between the British share of the revised German obligation and the British debt of 14.2 milliards to the United States Government, and even to consider accepting payment of the Allied debts so reduced in the form of the new German obligations on the principles laid down in the plan presented by Mr. Bonar Law at the Paris Conference in January last.

7. They cannot, however, conceal from the French Government the fact that this latter suggestion is less attractive to them than it was then, since the deterioration in the financial prospects of Germany, resulting, as they held, from the unwise policy pursued by the French and Belgian Governments, has made the security represented by German reparation bonds much more precarious (even if the total obligations should be reduced below the figure contemplated by His Majesty's Government seven months ago).

8. His Majesty's Government feel bound to observe in this connexion that the willingness which they and their predecessors have shown to discuss with the French Government arrangements under which the burden of the French debt to Great Britain might be mitigated must not be interpreted as a waiver on their part of their rights as creditors, which are governed solely by the contracts under which the money was advanced and the securities which they hold.

9. That a French Government Treasury bill given to the British Government for value received is a less binding obligation than a similar bill given to a private investor is a doctrine inadmissible both in itself and more especially in view of the circumstances in which these particular loans were contracted.

10. The normal course would have been for the French Government to appeal directly to the British investor for the accommodation it required, and that procedure was in fact adopted for a short period at the commencement of the war. It soon became apparent, however, that the French Government would be unable to raise on its own credit amounts sufficient to meet its sterling requirements, and the British Government stepped in and gave its own securities to the lender for the amounts raised to cover French requirements as well as British. By this means the French Government were able to borrow indirectly from British lenders both on less onerous terms and to a larger amount than would have been possible if the normal procedure had been followed. The payments due on the French Treasury bills thus represent amounts which the British Treasury is in fact paying to the holders of securities issued on behalf of the French Treasury of which the French Treasury received the proceeds.

11. There was no suggestion when the loans were made that the repayment should be dependent on recoveries from Germany. Indeed, during the greater part of the period covered by the advances, the prospects of any such recoveries were highly problematical. The bills were made subject to renewal for a limited period only after the end of the war, with the clear intention that as soon as French credit was sufficiently re-established they should be redeemed out of French Government loans to be raised on the London market, the redemption money being applied to the cancellation of the British

securities issued on French account.

13. While His Majesty's Government have, by continuing to renew the bills beyond the period of the contract, tacitly recognised that the time has not yet arrived for giving effect to this intention, it must be clearly understood that, in the absence of a new agreement, the carrying out of it remains an obligation of the French Government which cannot honourably be repudiated, and that, in the meantime, the present practice of adding interest to capital cannot be indefinitely continued, and that a commencement of payment of at any rate a part of the interest should be made as soon as the sterling-france exchange becomes reasonably stable.

COPY

[See Logans letter to Strong Feb 7, 1923 p 4]

Exhibit A.

Volume 9 m
I. L. Lacey

Disarmament.

The disarmament of nations is frequently regarded as the immediate and essential condition of world-wide peace.

This is an error: individual safety is not assured by prohibiting the manufacture or sale of revolvers, and neither will real peace be established among nations by reducing the means of mutual destruction, especially since such reduction is theoretical rather than practical. Disarmament must be the resultant of various forces, and not an object to be directly attained.

In democratic states governed by the will of the majority, the fear of excessive taxation - since modern inventions have rendered munitions immeasurably more expensive - and the reluctance of the peasants, the workmen, and even the middle-classes to perform military service, will raise ever-increasing obstacles to armament.

In addition to the horror inspired by the wholesale slaughter, the World War had a further important result in that it proved that ruin is inevitable even for the victor and that the best prepared and best equipped army is never assured of ultimate success. These are valuable lessons calculated to cool the zeal of nations for future wars.

The recent upheaval in Europe has moreover destroyed the absolute autocracy of the Czars and the war autocracy of the German and Austrian emperors and of the rulers of certain states of Eastern Europe. These are important factors in estimating the danger of future war. It is true that the desperate hatreds let loose in the last war have left nationalist oligarchies which might constitute dangerous hotbeds, were it not that their influence is doomed to disappear before the will of the masses.

The most powerful means of reassuring the populace and of giving the death-blow to militaristic tendencies would be an engagement assumed by the Governments to aid each other in case of

unprovoked aggression.

A Real Peace

The principal cause of war and armaments, however, and one often far removed from them, lies in the unrest and poverty of the people. It is often easy to induce the suffering masses to seize what they need from their more fortunate neighbours. Hence the danger of disturbances, to suppress which Governments lay up munitions which they allege to be necessary to guard the frontier. Moreover, when the people have suffered from prolonged unemployment or the scarcity of labour it is easy to persuade them that foreign politics are responsible for this situation, and the moment is favourable for the outburst of race hatreds and international conflict. Normal economic life, on the other hand, with the development of remunerative labour and comparative prosperity, is the surest guarantee of real peace.

The development of general prosperity must not rest on the exploitation of individuals or the excessive length of the working day, but on the constant increase of machinery and the means of more efficient production under the most favourable hygienic conditions. One need only consider the case of agriculture and the smaller industries to realise the enormous waste of human muscle and life. The danger lies not in over-production but in the scarcity of instruments of payment after a long period of destruction of property and suspension of normal labour.

Exchange.

The crisis in the exchange is the most striking manifestation of continental unrest, and to a certain extent constitutes a danger signal.

It is important therefore to ascertain the causes, the effects and the remedies of this crisis.

C a u s e s .

The cost of the war reached what have been called 'astronomical' figures, since they had never before been known on earth. The belligerent states recklessly spent their savings because they felt that their very existence depended on the outcome of the war.

For four years and a half all production, save the strict minimum necessary to sustain the civilian population, was devoted to turning out engines of destruction, and during that long period it ceased to be economically useful in developing wealth.

For this reason the taxes existing before the war brought in lower returns, and the Governments refrained from raising them or creating new ones in order not to alienate or excite the people, whose morale had to be kept intact to carry the war to a victorious conclusion.

In order to meet its incessant requirements the Treasury of each state issued internal loans almost continually, which were subscribed from patriotic motives, but also because during the war such loans constituted the only possible investment of surplus savings or profits left after the payment of war costs. However, the Treasury was also obliged to seek credits abroad, and even to call upon the National Bank to issue more notes in order to cover the pressing needs of the state by means of an exchange artificially maintained. For payments to be made abroad the Treasury was obliged here and there to pledge a portion of the gold of its bank of issue or to realize the foreign securities of its nationals, and when these resources were exhausted the war had to be carried on by means of credits granted by the treasuries of friendly Powers.

This financial situation, which during the war was difficult, if not critical, was aggravated after the war by the

enormous labour entailed in building up the devastated regions and by the great cost of demobilisation, as well as by pensions due to the wounded and to widows and orphans. Taxes were considerably though gradually increased, but aside from this measure the same procedure was resorted to as before in order to procure the necessary resources.

Consequences.

The effects of this situation were to be not only financial, but economic and social as well. There was an enormous deficit in the foreign accounts of a state; during the war it had liquidated its most important credits and had contracted debts without cover. Gold bullion was little by little concentrated in states which had been spared by the war for all or part of its duration, and this circumstance threatens to prolong the disorder in the financial balance of nations, since if reimbursement cannot be made and the balance re-established by the surrender of more gold, it will have to be done by exporting manufactured goods, against which the creditor states will not fail to protect themselves by prohibitive customs.

Within the nation the financial balance is destroyed by the difference between the face value of the bank note or the state loan bond and the amount of metal, credit or national wealth which it represents. Tokens of wealth exist in excess because they multiplied during the war, whereas the pre-war wealth has been reduced, in particular by devastation and by the liquidation of credits or assets abroad.

Such a financial situation and the resulting depreciation of exchange inevitably ruins national credit, or rather credit in the national currency. In the face of constant depreciation the holder of currency refuses to lend it against repayment, after a certain term, of the same face value, which will in

reality be worth less, and he makes haste to purchase gold values, that is, real property or industrial undertakings, at prices that have no relation to the normal return, or else he sends his capital abroad to purchase foreign currency or securities.

The depreciation of the exchange, and especially its fluctuation, makes living more expensive, because producers, and more particularly merchants, naturally try to make the consumer bear the risk of the fluctuation, while logically they are brought to collect all the profits.

Producers individually can adjust their affairs to a rise in the exchange, since the effect on wages and the national currency is not immediate; their cost price is thus kept down, and they can successfully compete in the world market with countries whose exchange is normal.

Everyone knows that the immediate victims of the crisis of the exchange are not the property-owners nor the producers nor the merchants, nor even the workmen and tenants, who have been able to take collective measures to defend themselves, but people of independent means and creditors in or holders of the national currency. Thus the principle of social solidarity which imposes on the community the duty of compensating individuals for damage incurred until the conquered nations have made their reparation payments, throws the burden not on the property-owners and the manufacturers, who are the principal parties concerned, but on the people of independent means. The latter, in so far as they understand the situation, tolerate it only on the repeated assurance that the crisis is temporary and that Germany will make reparation in full, which will put an end to the present situation.

However this may be, it is impossible to estimate the

economic and social effects which may ensue even for states not directly concerned.

Remedies.

In order to emerge from this crisis the solution to each problem must be sought by the means dictated by truth and justice without being diverted by even legitimate passions, because in the long run the path of truth and justice is that of the general interest. As soon as the Germans understand their duty, which arises both from their responsibility for the war and from their defeat, and especially when they have manifested this sentiment by a sincere will to pay, a liberal agreement may be sought with them in regard to the means of freeing themselves and of restoring their currency and reviving their public finance. As soon as the sincerity of this will to liberate themselves is proved by deeds, the compulsory measures necessitated by the absence of this sentiment will automatically disappear. In order to do this Germany can and must pay her debt by capital operations. She can entrust to international companies, or even to national companies against certain guarantees, the operation of the railways, forests and mines belonging to the Reich or States, as long as may be necessary for her liberation; she can concede to similar companies the administration of certain monopolies, and finally she can issue loans secured by her customs and by certain taxes. It has already been shown, and it might be proved again, that none of these measures would be incompatible with a budget balance realized by a system of taxation less onerous than that of her great neighbours, and currency reform would ensue, since the metal reserve of the Reichsbank, though reduced during recent months, is still worth more, at the current rate of exchange, than the innumerable notes issued.

Approved & submitted

The German nation has not yet the will to make such a sacrifice, being still preoccupied with means of wearing out its creditors and evading its obligations. It must be profoundly convinced that the necessary sacrifices are obligations compatible with truth and justice, since they are still less than the material damage suffered by the sinistrés of the victorious nations. When this conviction has taken hold of the German people, the European countries must reform their finances, otherwise social and economic upheaval will ensue. The first duty of a state is to maintain its credit at home and abroad.

In order to accomplish a lasting currency reform and to balance their budgets the states must reduce their foreign debt to normal proportions, and must to that end make their tokens of wealth or credit correspond to real values. It is now impossible, in social and financial dealings, to pretend to believe in the face value of a banknote or a security, when everyone knows that the real value is only one-third or one-fourth of its face value. The very fact that everyone is aware of the difference between the face value and the real value is sufficient to cause excessive depreciation. Germany's case is a proof of this phenomenon, since the permanent and increasing difference between the face value and the real value of the Reichsbank notes has caused such a depreciation that the enormous issue of banknotes is quoted on the various exchanges at a sum less than the metal reserve of the Reichsbank. Moreover, if the State and the public administrations were called upon to redeem at par the notes issued during the war or immediately afterward they would either find it impossible or would lay a crushing burden on several generations to come. Therefore either the face value of the paper must be reduced or the number of bills issued must be limited, in order to make the face value correspond with the actual value. The latter procedure is the only fair one, and will be necessary

sooner or later, but it is not within the province of this paper to discuss the relative merits of the two methods.

As to foreign debts contracted during the war, they must absolutely be redeemed, consolidated or remitted. A permanent state of uncertainty in regard to these debts is destructive of credit and obviates any thoroughgoing financial reform. It is obviously impossible to open discussion on the loans contracted with private individuals, since these are purely commercial affairs and must, under penalty of destroying all credit, be liquidated at any cost, even by alienating, if necessary, a portion of the national capital. However, in regard to international credit operations, undertaken to bring the war to a victorious close, and to save humanity from a formidable bondage, account must be taken, in their liquidation, of the financial capacity of the nations and of the reasons which underlay these operations. The treatment accorded to a conquered nation that deliberately destroyed mines and factories in order to overcome legitimate economic competition, cannot be accorded to an Allied nation that has incurred debt for the purchase of guns to stop the advance of the common enemy. In such circumstances the debt of the friendly nation must be paid out of the surplus of the balance of accounts. Her means of production cannot be taken from her, nor can she be forbidden to import the commodities necessary for the normal existence of her people.

Intervention of the United States.

In conclusion, the financial revival of continental Europe has not yet commenced, and the ground is scarcely cleared for the erection of a new structure. The states whose finances are still sound are undergoing an economic crisis all the more serious since the cost price of their products is too high as

compared with that of countries with depreciated exchange, and in particular because buyers are lacking, the latter countries having become more and more incapable of making purchases.

America has already intervened to save Europe from military bondage - will she not intervene again to avert a financial, economic, and perhaps social catastrophe? She will be driven to take this step not only by her humanitarian ideals, but by her interest, when she has a full understanding of the efficacy of her assistance. It is to her interest to save all that can reasonably be recovered out of her European credits and to maintain her right to look for the support of Europe in case of attack from the other side of the ocean, and in particular to be able to count on collaboration which under certain circumstances may be necessary and valuable.

American assistance in Europe might take two forms; on the one hand private American capital might be offered to aid Germany to create securities which she might assign to the payment of her debt, and on the other this capital might be offered to the Allied countries in order to enable them to consolidate and pay the debts they contracted during the war and immediately afterward.

This assistance from private establishments should be preceded by an examination by American experts, free from all political prejudice, of the balance of accounts of each of the debtor states, their resources and their potential factors of production. Such a labour would be free from all suspicion and prejudice, and might have a determining influence on the liquidation of international interests. In other words, the financial revival of Europe can take place only by the immediate mobilisation of Germany's reparation debt by means of concessions on her railways and private domains, and of consolidated loans secured by her customs duties and certain monopolies; the liquidation of the war debts of all the debtor states

should ensue, after an enquiry by experts in which the United States, as principal creditor, should take the initiative.

SPEECH OF PRIME MINISTER BALDWIN IN BRITISH
PARLIAMENT ON JULY 12th, 1923.

It cannot be made too clear in the interests alike of the Powers concerned and of any who may hope to profit by exploiting differences between them, that the sole ground of possible divergence is as to the most effective means of reaching the ends which are vital to all, and upon which all are in agreement. These ends are, as they have remained throughout, the payment of reparations and the recovered security of Europe. To ensure them the Allies have grudged nothing in the past, nor will they grudge anything in the future. This responsibility is acknowledged, and is shared in equal measure by France, by Italy, by Belgium, and by ourselves. Perhaps it may be held to devolve in a more special measure upon the French and British nations by virtue of the great sacrifices which they made side by side in the years of trial, by the intimacy of fact and memory which unites them today, and not least by the experience which these two ancient civilizations have shared throughout the centuries.

A similar community of thought and action binds us in the present emergency to our other Allies, whose interests are in no respect divergent from our own. In the common desire for settlement and pacification, and still more for no further or unreasonable delay, we can speak together frankly and with the full comprehension of partners bound by an equal destiny to the same task. The whispers of interested parties cannot be allowed on either side of the Channel or in any part of Europe to deflect us from that duty by any reservations, or by carefully fostered misunderstandings.

In all that we are about to say or to do his Majesty's Government are moved, as we know the heart of France to be moved -- and the same applies equally to our other Allies -- by the single desire that good will between the nations who have endured together shall be maintained, and that each shall obtain what is her due.

GERMANY'S CAPACITY TO PAY.

We are as determined as any of our Allies that Germany shall make reparation for the damages done in the Great War up to the fullest extent of her capacity. We have never wavered on this point; I do not believe that our people ever will. Indeed, we go further, and we are ready, as we have said on many occasions and as was repeated in Paris in January last, to use every measure to compel Germany to pay up to the amount of her capacity. We are conscious, however, as a business nation that if we ask Germany to pay in excess of her capacity we shall not succeed. We and our Allies will be the main sufferers, and we are firmly convinced that methods which can only result in the ruin of Germany will be fatal to this country, to our Allies, and to the whole of Europe.

From the beginning we have made it clear that, in our opinion, the occupation of the Ruhr was not calculated to produce the maximum amount of reparation payment for the Allies. In January we made in Paris an offer which we regarded as a very generous settlement in order to avoid what seemed to us to be an economic disaster. That offer was rejected by our Allies, and since then we have stood aside animated by a spirit of sincere loyalty to the alliance which has been, and continues to be, in our opinion, the main security for European peace. Many of the consequences which were then anticipated are in course of fulfillment. The Allies are obtaining less reparation than they did before the occupation. What reparation they are receiving is being exacted at the price of the growing dislocation of the German economic system and, as seems probable, of the future total collapse of that system itself.

RESULTS OF THE OCCUPATION

The French and Belgian Governments assure us that their sole object in occupying the Ruhr is to secure the payment of reparations. If that be so the difference between us is one of method rather than of aim, but we are convinced that an indefinite continuation of this state of affairs is fraught with grave peril. Germany herself appears to be moving fast towards economic chaos, which may itself be succeeded by social and industrial ruin. The local populations are, in many cases, suffering severely, and there are genuine apprehensions of a shortage of food. Nor is this a situation that concerns Germany alone. In proportion as the productive power of that country is exhausted, so does the recovery of her credit and the payment of her debts recede into a dimmer distance. Every country in Europe is paying the price for this condition of affairs. One country pays it in a steadily falling exchange, another in diminished trade, a third in increasing unemployment. If we were called upon to state or to defend the case of our own country alone, we could, without difficulty, demonstrate the serious effect that has already been produced upon British trade.

In spite of very great expenditure by the State (the figure is some £400,000,000 sterling since the Armistice), we still have unemployment on a large scale in this country. Not only does our devastation continue instead of being repaired, but it continues increasingly as the moral effects spread among our people. Public opinion throughout Europe, and not least in Great Britain, is becoming more and more sensitive to these conditions and alarmed at their continuance. It is not too much to say that the recovery of the world is in danger, and that peace, for which so many sacrifices were borne, is at stake.

NECESSITY FOR ACTION.

It is in these circumstances that the necessity for action has been increasingly impressed upon his Majesty's Government. The exchange of friendly conversations, useful as they are, does not appear to lead in all cases to positive results. It is becoming evidence that the attitude of the principal parties concerned must be more clearly defined. If the situation has been at all correctly described in the preceding paragraphs, it cannot be left to right itself.

There will, I believe, be general agreement to these propositions -- that the period of conflict should as soon as possible be terminated; that the indefinite occupation by one country of the territory of another in time of peace is a phenomenon, rare and regrettable in itself, to which an honourable end should as soon as possible be found; that the debtor should not merely be called upon to pay his debts, but should be placed in a position where he can do so; that his capacity, where it is in doubt, should be tested and determined; and that united efforts should be made to accomplish these ends.

Peace will not finally be obtained and recovery will not be ensured until a solution has been found to three great questions. They are -- (1) the payment of reparations; (2) the settlement of inter-Allied debts; and (3) the security of a pacified Europe. It is to these questions that the attention of the world should be turned.

In the pursuit of these aims his Majesty's Government are so far from desiring to deprive France and Belgium of their legal claims that they wish to assist them in their realization. Our desire is for advance, if it can be made, and for finality, if it can be attained. And in these aspirations, as well as in our view of the general situation, we are hopeful of obtaining the concurrence of France and Belgium, no less than that of Italy. Indeed we have every reason to believe that the views of the Italian Government are in substantial agreement with our own.

THE GOVERNMENT PROPOSAL.

What, then, are the steps which we think ought to be taken? The German Note of June 7, in reply to a definite suggestion which had been addressed to the German Government, proposed an investigation of Germany's capacity to pay by an impartial body, coupled with an engagement to pay the amounts determined in the manner that might be proposed. It further contained the offer of a series of concrete guarantees. We do not think that these suggestions, whether they be adequate or not, should be ignored. We are unable to agree that a correspondence of this nature upon matters affecting the interests of all should be wholly one-sided, or that proposals, which may be found to contain in them the germs of a possible settlement, should be treated with indifference.

We hold that they should be examined and explored in order that we may discover whether there lies within them the possibility of progress. Understanding that the French and Belgian Governments are not disposed to take the initiative in suggesting a reply -- although we would gladly have welcomed any such action on their part -- we have informed those Governments as also the Italian Government, that we are willing to assume the responsibility of preparing adraft reply ourselves. Adhering, however, as we do to the view which we expressed on the last occasion that united action is better than separate or isolated action, we shall submit the reply with the least possible delay, to our Allies, for their consideration and remarks, and we indulge in the hope that we may be able to arrive at an agreement with them as to the terms. What the exact nature of the reply should be it will be premature to discuss at the present stage.

In formulating these views, his Majesty's Government are not without hope that they may be expressing Allied sentiments as well as their own. We do not believe that in principle we are widely separated, if at all, from them. Divergence of method should not be incapable of resolution. So far as united action is possible, we shall continue to pursue it, as we have endeavoured to do all along, and we shall confidently invite the sympathetic consideration of the whole of our Allies and of all interested States to proposals which will have no other aim than the pacification of Europe and the recovery of an exhausted world.
