

CONFIDENTIAL

a INTERNATIONAL PAYMENTS RESULTING FROM THE WAR.

TRANSFER COMMITTEE

ECONOMIC SERVICE

CONFIDENTIAL.

PRIVATE MEMORANDUM No.8

For Members of
Transfer Committee only.

T R A N S F E R C O M M I T T E E

E C O N O M I C S E R V I C E .

Berlin, December 10, 1926.

I N T E R N A T I O N A L P A Y M E N T S R E S U L T I N G F R O M T H E W A R .

In the following tables we have endeavoured to present a statement of those payments from one State to another on account of war debts or reparations, which have been or are to be effected during the period of twelve years from 1924 to 1936, under the various agreements already in force or awaiting ratification.

The first series of tables refers to the payments to be made by Germany, under the Experts' Plan.

The second series shows the payments to be made on account of interallied debts, chiefly effected by the various Powers, to the United States of America and Great Britain.

The third series shows the net situation of the different Powers, assuming the full settlement of debts and reparations during this twelve year period.

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I.

PAYMENTS TO BE MADE BY GERMANY.

In determining the sums to be paid by Germany, full payments and transfers under the Experts' Plan are assumed for purposes of analysis, except for the fact that possible payments under the Index of Prosperity have not been taken into account.

The tables also show the distribution of the payments amongst the various Powers. The figures for 1924-25 and 1925-26 give the distribution actually applied to the first and second Annuities, while those for 1926-27 show the distribution actually in course of application during the third Annuity year. For the succeeding years, the tables of distribution have been drawn up on the following assumptions:

(1) That the costs of the Armies of occupation will be maintained during the whole period of occupation contemplated by the Treaty of Versailles (that is to say, until the end of 1934), at the present figure of 160 million gold marks. This is probably an over-estimate.

(2) For the service of the German External Loan, a round sum of 90 million gold marks per year has been taken for the whole of this period.

Throughout the tables, the sums payable for the service of the German External Loan are excluded from the figures showing the German payments, for the reason that the payments for the service of the Loan take the form of payments to the bondholders and do not, in fact, represent payments from Germany to the creditor Powers. On the other hand, it must be remembered that the sums required for the service of the Loan are included in the annuities payable by Germany under the Experts' Plan, and are transferred through the medium of the Transfer Committee.

The general tables show the total amounts of the payments to the various Powers, without distinguishing between the different categories under which the payments are received by the Powers: e.g. Armies of Occupation, Restitution, Belgian Debt, Reparation, etc. Moreover, the payments are shown in gold marks, or their equivalent, without regard to whether they are received in cash or in the form of deliveries in kind.

The following series of tables shows the payments required of Germany under the Experts' Plan during the period from September 1, 1924, to August 31, 1936, with their estimated distribution among the respective creditor Powers:

FINAL DISTRIBUTION OF THE FIRST ANNUITY UNDER THE EXPERTS' PLAN (1924-1925)

(In thousands of Gold Marks)

POWERS	Arrears due on account of Army Costs	Current expenses of Armies of Occupation	Belgian Debt	Restitutions	Reparations	TOTAL SHARES
1. United States	(2 1/4 % of 682,633.88 GM.		available for	Reparations)	15,359.26	15,359.26
2. British Empire	4,837.50	25,000.00	14,308.80	100.43	146,800.42	191,047.15
3. France	6,412.50	110,000.00	16,663.17	4,454.04	(346,982.80 (Dr. 30,000.00	454,512.51
4. Italy	-	-	-	86.06	66,727.46	66,813.52
5. Belgium	-	25,000.00	5,338.34	2,227.06	(53,381.97 (Cr. 30,000.00	115,947.37
6. Japan	-	-	-	-	5,004.56	5,004.56
7. Serbia	-	-	-	71.68	33,363.73	33,435.41
8. Portugal	-	-	-	-	5,004.56	5,004.56
9. Rumania	-	-	-	193.68	7,340.02	7,533.70
10. Greece	-	-	-	-	2,669.10	2,669.10
11. Poland	-	-	-	129.12	-	129.12
					667,274.62	
	11,250.00	160,000.00	36,310.31	7,262.07	682,633.88	897,456.26
					Interest received and gain in exchange (less discount paid) included.....	254.77
					Costs of Inter-Allied Commissions	897,201.49
					Service of German External Loan	25,819.62
					TOTAL	76,978.89
						1,000,000.00

The French claim for Reparations has been reduced by 30 million, gold marks which amount has been attributed to Belgium in accordance with the provisions of Annex 2301-A approved by Reparation Commission Decision No.3111.

REVISED DISTRIBUTION OF THE SECOND ANNUITY UNDER THE EXPERTS' PLAN (1925-1926)

(In thousands of Gold Marks)

POWERS	Arrears on account of Army Costs (See Note)	Current expenses of Armies of Occupation	Belgian Debt	Restitu- tions	Repara- tions	TOTAL SHARES
1. United States	(2 1/4 % of 870,038.66 G.M. available for Reparations)				19,575.87	19,575.87
2. British Empire	8,017.85	25,000.--	18,237.03	128.01	187,101.81	238,484.70
3. France	10,628.31	110,000.--	21,237.73	5,676.82	436,240.65	583,783.51
4. Italy	-	-	-	109.68	85,046.28	85,155.96
5. Belgium	-	25,000.--	6,803.89	2,838.45	74,037.03	108,679.37
6. Japan	-	-	-	-	6,378.47	6,378.47
7. Serbia	-	-	-	91.35	42,523.14	42,614.49
8. Portugal	-	-	-	-	6,378.47	6,378.47
9. Rumania	-	-	-	246.85	9,355.09	9,601.94
10. Greece	-	-	-	-	3,401.85	3,401.85
11. Poland	-	-	-	164.57	-	164.57
	18,646.16	160,000.--	46,278.65	9,255.73	850,462.79	1,104,219.20
						Interest earned and gain in exchange included in the above distribution :
						3,157.40
						1,101,061.80
						Costs of Inter-Allied Commissions :.....
						19,293.69
						Service of German External Loan :.....
						92,234.10
						Discount on Railway Interest :.....
						7,410.41
						TOTAL :.....
						1,220,000.--

NOTE: The allowances in respect of arrears on account of Army Costs have been reduced by G.M. 582.15 for the British Empire and G.M. 771.69 for France, these amounts having been paid by the Reparation Commission to the respective Governments out of receipts arising outside of the Annuity.

ESTIMATED DISTRIBUTION OF THE THIRD ANNUITY UNDER THE EXPERTS' PLAN (1926-1927)

(In thousands of Gold Marks)

POWERS	Cash payment on account of the U.S. Army of Occupation	Arrears on account of Army Costs	Current expenses of Armies of Occupation	Belgian Debt	Restitu- tions	Repara- tions	TOTAL SHARES
1. United States	55,000.00						
	(2 1/4 % of 1,075,050.74 available for Reparations).....					24,188.64	79,188.64
2. British Empire	-	10,750.00	25,000.00	22,534.32	158.17	245,971.79	304,414.28
3. France	-	14,250.00	110,000.00	26,242.10	7,014.48	583,913.62	741,420.20
4. Italy	-	-	-	-	135.52	94,564.04	94,699.56
5. Belgium	-	-	25,000.00	8,407.13	3,507.30	47,288.79	84,203.22
6. Japan	-	-	-	-	-	8,039.34	8,039.34
7. Serbia	-	-	-	-	112.88	47,277.51	47,390.39
8. Portugal	-	-	-	-	-	7,991.98	7,991.98
9. Rumania	-	-	-	-	305.02	11,606.85	11,911.87
10. Greece	-	-	-	-	-	4,208.18	4,208.18
11. Poland	-	-	-	-	203.34	-	203.34
						<u>1,050,862.10</u>	
	55,000.00	25,000.00	160,000.00	57,183.55	11,436.71	1,075,050.74	1,383,671.00
							Costs of Inter-Allied Commissions..... 18,350.00
							Service of German External Loan..... 91,500.00
							Discount on Railway Interest..... 6,472.00
							<u>TOTAL..... 1,500,000.00</u>

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ESTIMATED DISTRIBUTION OF THE FOURTH ANNUITY UNDER THE EXPERTS' PLAN (1927-1928)

(In thousands of Gold Marks)

Powers	Cash payment on account of the costs of the U.S. Army of Occupation	Arrears on account of Army Costs	Current expenses of Armies of Occupation	Belgian Debt	Restitutions	Reparations	TOTAL SHARES
1. United States	55,000.-- (2 1/2 % of 1,312,851,000.-- G.M. available for Reparations)					29,539.15	84,539.15
2. British Empire		12,900.--	25,000.--	27,518.90	193.16	287,027.14)	365,992.58
3. France	-	17,100.--	110,000.--	32,046.83	8,566.07	13,353.38) 681,512.25)	880,787.69
4. Italy	-	-	-	-	165.50	31,562.54)	115,647.02
5. Belgium	-	-	25,000.--	10,266.77	4,283.11	115,481.52	97,298.91
6. Japan	-	-	-	-	-	57,749.03	9,817.64
7. Serbia	-	-	-	-	137.85	9,817.64	57,873.10
8. Portugal	-	-	-	-	-	57,735.25	9,759.80
9. Rumania	-	-	-	-	372.49	9,759.80	14,546.76
10. Greece	-	-	-	-	-	14,174.27	5,139.03
11. Poland	-	-	-	-	248.32	5,139.03	248.32
						1,283,311.85	
	55,000.--	30,000.--	160,000.--	69,832.50	13,966.50	1,312,851.--	1,641,650.--
							Costs of Inter-Allied Commissions..... 18,350.--
							Service of German External Loan..... 90,000.--
						TOTAL	1,750,000.--

ESTIMATED DISTRIBUTION OF THE FIFTH ANNUITY UNDER THE EXPERTS' PLAN (1928-1929)

(In thousands of Gold Marks)

Powers	Cash payment on account of the costs of the U.S. Army of Occupation.	Arrears on account of Army Costs.	Current expenses of Armies of Occupation	Belgian Debt	Restitutions	Reparations	TOTAL SHARES
1. United States	55,000.-- (2 1/4 % Reparations ^o Share)	-	-	-	-	45,000.--	100,000.--
2. British Empire	-	12,900.--	25,000.--	42,296.52	504.33	434,303.58 20,372.23	535,376.66
3. France	-	17,100.--	110,000.--	49,255.96	22,366.--	1,028,883.50 48,152.55	1,275,758.01
4. Italy	-	-	-	-	432.13	190,935.10	191,367.23
5. Belgium	-	-	25,000.--	15,780.02	11,183.18	88,103.30	140,066.50
6. Japan	-	-	-	-	-	14,830.63	14,830.63
7. Serbia	-	-	-	-	359.93	88,067.30	88,427.23
8. Portugal	-	-	-	-	-	14,786.61	14,786.61
9. Rumania	-	-	-	-	972.56	21,580.39	22,552.95
10. Greece	-	-	-	-	-	7,835.81	7,835.81
11. Poland	-	-	-	-	648.37	-	648.37
	55,000.--	30,000.--	160,000.--	107,332.50	36,466.50	1,957,851.-- 2,002,851.--	2,391,650.--
							Costs of Inter-Allied Commissions..... 18,350.--
							Service of German External Loan..... 90,000.--
							TOTAL..... 2,500,000.--

ESTIMATED DISTRIBUTION OF THE SIXTH ANNUITY UNDER THE EXPERTS' PLAN (1929-1930)

(In thousands of Gold Marks)

Powers	Cash Payment on account of the costs of the U.S. Army of Occupation	Arrears on account of Army Costs	Current Expenses of Armies of Occupation	Belgian Debt	Restitutions	Reparations	Total Shares
1. United States	55,000.--	(2 1/4 % of Reparations' Share)				45,000.--	100,000.--
2. British Empire	-	4,300.--	25,000.--	42,296.52	504.33	433,121.64)	525,594.72
3. France	-	25,700.--	110,000.--	49,255.96	22,366.--	20,372.23(1,025,313.90)	1,280,788.41
4. Italy	-	-	-	-	432.13	48,152.55(195,785.10	196,217.23
5. Belgium	-	-	25,000.--	15,780.02	11,183.18	88,103.30	140,066.50
6. Japan	-	-	-	-	-	14,782.13	14,782.13
7. Serbia	-	-	-	-	359.92	88,067.30	88,427.22
8. Portugal	-	-	-	-	-	14,752.66	14,752.66
9. Rumania	-	-	-	-	972.56	21,565.84	22,538.40
10. Greece	-	-	-	-	-	7,834.35	7,834.35
11. Poland	-	-	-	-	648.38	-	648.38
						1,957,851.--	
	55,000.--	30,000.--	160,000.--	107,332.50	36,466.50	2,002,851.--	2,391,650.--
							Costs of Inter-Allied Commissions:- 18,350.--
							Service of German External Loan :- 90,000.--
							TOTAL :- 2,500,000.--

ESTIMATED DISTRIBUTION OF THE SEVENTH ANNUITY UNDER THE EXPERTS' PLAN (1930-1931)

(In thousands of Gold Marks)

POWERS	Cash Payment on account of the costs of the U.S. Army of Occupation	Arrears on account of Army Costs	Current Expenses of Armies of Occupation	Belgian Debt	Restitutions	Reparations	Total Shares
1. United States	55,000.00	(2 1/4 % of Reparations Share)				45,000.00	100,000.00
2. British Empire	-	-	25,000.00	42,296.52	504.33	433,121.64	521,294.72
3. France	-	30,000.00	110,000.00	49,255.96	22,366.00	20,372.23 1,025,313.90	1,285,088.41
4. Italy	-	-	-	-	432.13	48,152.55 195,785.10	196,217.23
5. Belgium	-	-	25,000.00	15,780.02	11,183.18	88,103.30	140,066.50
6. Japan	-	-	-	-	-	14,782.13	14,782.13
7. Serbia	-	-	-	-	359.92	88,067.30	88,427.22
8. Portugal	-	-	-	-	-	14,752.66	14,752.66
9. Rumania	-	-	-	-	972.56	21,565.84	22,538.40
10. Greece	-	-	-	-	-	7,834.35	7,834.35
11. Poland	-	-	-	-	648.38	-	648.38
						1,957,851.00	
	55,000.00	30,000.00	160,000.00	107,332.50	36,466.50	2,002,851.00	2,391,650.00
							Costs of Inter-Allied Commissions : 18,350.00
							Service of German External Loan : 90,000.00
							TOTAL : 2,500,000.00

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ESTIMATED DISTRIBUTION OF THE EIGHTH ANNUITY UNDER THE EXPERTS' PLAN (1931-1932)

(in thousands of Gold Marks)

Powers	Cash payment on account of the costs of the U.S. Army of Occupation.	Arrears on account of Army Costs	Current expenses of Armies of Occupation.	Belgian Debt	Restitutions	Reparations	TOTAL SHARES
1. United States	55,000.-- (2 $\frac{1}{4}$ % Reparations' Share)					45,000.--	100,000.--
2. British Empire	-	-	25,000.--	42,664.97	506.92	437,010.26 20,555.14	525,737.29
3. France	-	11,300.--	110,000.--	49,685.04	22,480.69	1,034,519.28 48,584.88	1,276,569.89
4. Italy	-	-	-	-	434.34	197,542.90	197,977.24
5. Belgium	-	-	25,000.--	15,917.49	11,240.53	88,894.30	141,052.32
6. Japan	-	-	-	-	-	14,914.85	14,914.85
7. Serbia	-	-	-	-	361.77	88,858.13	89,219.90
8. Portugal	-	-	-	-	-	14,885.11	14,885.11
9. Rumania	-	-	-	-	977.55	21,759.46	22,737.01
10. Greece	-	-	-	-	-	7,904.69	7,904.69
11. Poland	-	-	-	-	651.70	-	651.70
						1,975,429.--	
	55,000.--	11,300.--	160,000.--	108,267.50	36,653.50	2,020,429.--	2,391,650.--
							Costs of Inter-Allied Commissions 18,350.--
							Service of German External Loan 90,000.--
							2,500,000.--

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ESTIMATED DISTRIBUTION OF THE ELEVENTH AND TWELFTH ANNUITIES UNDER THE EXPERTS' PLAN (1934-1935 AND 1935-1936).

(In thousands of Gold Marks).

Powers.	Cash payment on account of the cost of the U.S. Army of Occupation.	Belgian Debt	Restitutions	Reparations	TOTAL SHARES
1. United States	55,000.-- (2 $\frac{1}{4}$ % Reparation Share)			45,000.--	100,000.--
2. British Empire	-	46,040.18	530.61	472,631.71	541,433.14
3. France	-	53,615.60	23,531.33	22,230.64	
4. Italy	-	-	454.64	1,118,844.53	1,248,536.61
5. Belgium	-	17,176.72	11,765.85	52,545.15	214,099.74
6. Japan	-	-	-	213,645.10	125,082.87
7. Serbia	-	-	378.68	96,140.30	16,130.58
8. Portugal	-	-	-	16,130.58	96,481.11
9. Rumania	-	-	1,023.23	96,102.43	16,098.42
10. Greece	-	-	-	16,098.42	24,556.35
11. Poland	-	-	682.16	23,533.12	8,549.02
				8,549.02	682.16
				-	
				2,136,451.--	
	55,000.--	116,832.50	38,366.50	2,181,451.--	2,391,650.--
					Cost of Inter-Allied Commissions..... 18,350.--
					Service of German External Loan..... 90,000.--
					TOTAL..... 2,500,000.--

SUMMARY OF THE GERMAN PAYMENTS UNDER THE EXPERTS' PLAN FROM 1924 TO 1936.

(In thousands of Gold Marks)

Years	United States	Great Britain	France	Italy	Belgium	Japan	Serbia	Portugal	Rumania	Greece	Poland	GRAND TOTAL
1924/25	15,359	191,047	454,512	66,814	115,947	5,005	33,435	5,005	7,534	2,669	129	897,456
1925/26	19,576	238,485	583,784	85,156	108,679	6,378	42,614	6,378	9,602	3,402	165	1,104,219
1926/27	79,189	304,414	741,420	94,700	84,203	8,039	47,390	7,992	11,912	4,208	204	1,383,671
1927/28	84,539	365,992	880,788	115,647	97,299	9,818	57,873	9,760	14,547	5,139	248	1,641,650
1928/29	100,000	535,377	1,275,758	191,367	140,066	14,831	88,427	14,787	22,553	7,836	648	2,391,650
1929/30	100,000	525,595	1,280,789	196,217	140,067	14,782	88,427	14,753	22,538	7,834	648	2,391,650
1930/31	100,000	521,295	1,285,089	196,217	140,067	14,782	88,427	14,753	22,538	7,834	648	2,391,650
1931/32	100,000	525,737	1,276,570	197,977	141,052	14,915	89,220	14,885	22,737	7,905	652	2,391,650
1932/33	100,000	528,422	1,271,422	199,041	141,648	14,995	89,699	14,965	22,857	7,947	654	2,391,650
1933/34	100,000	528,422	1,271,422	199,041	141,648	14,995	89,699	14,965	22,857	7,947	654	2,391,650
1934/35	100,000	541,433	1,248,537	214,100	125,083	16,131	96,481	16,098	24,556	8,549	682	2,391,650
1935/36	100,000	541,433	1,248,537	214,100	125,083	16,131	96,481	16,098	24,556	8,549	682	2,391,650

SUMMARY OF THE GERMAN PAYMENTS UNDER THE EXPERTS' PLAN FROM 1924 to 1936

(In thousands of dollars)

YEARS	United States	Great Britain	France	Italy	Belgium	Japan	Serbia	Portugal	Rumania	Greece	Poland	GRAND TOTAL
1924/25	3,657	45,487	108,217	15,908	27,606	1,192	7,961	1,192	1,794	635	31	213,680
1925/26	4,661	56,782	138,996	20,275	25,876	1,519	10,146	1,519	2,286	810	39	262,909
1926/27	18,854	72,479	176,529	22,548	20,048	1,914	11,283	1,903	2,836	1,002	49	329,445
1927/28	20,128	87,141	209,711	27,535	23,166	2,338	13,779	2,324	3,464	1,224	59	390,869
1928/29	23,809	127,471	303,752	45,563	33,349	3,531	21,054	3,521	5,370	1,866	154	569,440
1929/30	23,809	125,142	304,950	46,718	33,349	3,520	21,054	3,513	5,366	1,865	154	569,440
1930/31	23,809	124,118	305,974	46,718	33,349	3,520	21,054	3,513	5,366	1,865	154	569,440
1931/32	23,809	125,175	303,945	47,138	33,584	3,551	21,243	3,544	5,414	1,882	155	569,440
1932/33	23,809	125,815	302,719	47,391	33,726	3,570	21,357	3,563	5,442	1,892	156	569,440
1933/34	23,809	125,815	302,719	47,391	33,726	3,570	21,357	3,563	5,442	1,892	156	569,440
1934/35	23,809	128,912	297,271	50,976	29,782	3,841	22,972	3,833	5,847	2,035	162	569,440
1935/36	23,809	128,912	297,271	50,976	29,782	3,841	22,972	3,833	5,847	2,035	162	569,440

II.

INTER-ALLIED DEBT PAYMENTS TO THE UNITED STATES OF AMERICA
AND TO GREAT BRITAIN.

The following tables have been prepared on the basis of the agreements made by the United States and Great Britain with their respective debtors. The agreements with France have not yet been ratified, but the tables have nevertheless been drawn up as if all the settlements were actually in force.

In order to facilitate comparison with German reparation payments, which are arranged in Annuity years running from September 1st to August 31st, the various Inter-allied debt payments have been tabulated so as to fall within periods corresponding exactly to the Annuity years under the Experts' Plan.

A. Payments to the United States of America.

Below will be found, for each of the countries which have concluded a Debt Funding Agreement with the Government of the United States, a statement of the obligations assumed for each of the years considered, in respect of both interest and amortisation.

The thirteen countries covered are as follows:

Great Britain	Czecho-Slovakia
France	Esthonia
Italy	Latvia
Belgium	Lithuania
Poland	Finland
Jugo-Slavia	Hungary
Rumania	

Statement showing Payments from G R E A T B R I T A I Nt o the U N I T E D S T A T E S O F A M E R I C A (1924-1936)

Total debt to be repaid 4 600 000 000 Dollars

Date	Sums still out- standing before maturity of Sinking Fund Payments	Rate of matured interest	Sinking Fund Payments	Interest	Total 3 + 4	Annual total. Interest + Sinking Fund.
	1	2	3	4	5	6
		in		1 000		Dollars
1924 Dec. 15	4 577 000	3 %	23 000	68 655	91 655	
1925 June 15		3 %		68 310	68 310	
1924/25						159 965
1925 Dec. 15	4 554 000	3 %	24 000	68 310	92 310	
1926 June 15		3 %		67 950	67 950	
1925/26						160 260
1926 Dec. 15	4 530 000	3 %	25 000	67 950	92 950	
1927 June 15		3 %		67 575	67 575	
1926/27						160 525
1927 Dec. 15	4 505 000	3 %	25 000	67 575	92 575	
1928 June 15		3 %		67 200	67 200	
1927/28						159 775
1928 Dec. 15	4 480 000	3 %	27 000	67 200	94 200	
1929 June 15		3 %		66 795	66 795	
1928/29						160 995
1929 Dec. 15	4 453 000	3 %	27 000	66 795	93 795	
1930 June 15		3 %		66 390	66 390	
1929/30						160 185
1930 Dec. 15	4 426 000	3 %	28 000	66 390	94 390	
1931 June 15		3 %		65 970	65 970	
1930/31						160 360
1931 Dec. 15	4 398 000	3 %	28 000	65 970	93 970	
1932 June 15		3 %		65 550	65 550	
1931/32						159 520
1932 Dec. 15	4 370 000	3 %	30 000	65 550	95 550	
1933 June 15		3 1/2 %		75 950	75 950	
1932/33						171,500
1933 Dec. 15	4 340 000	3 1/2 %	32 000	75 950	107 950	
1934 June 15		3 1/2 %		75 390	75 390	
1933/34						183 340
1934 Dec. 15	4 308 000	3 1/2 %	32 000	75 390	107 390	
1935 June 15		3 1/2 %		74 830	74 830	
1934/35						182 220
1935 Dec. 15	4 276 000	3 1/2 %	32 000	74 830	106 830	
1936 June 15		3 1/2 %		74 270	74 270	
1935/36						181 100

Statement showing Payments from FRANCEto the UNITED STATES OF AMERICA (1924-1936)

Total debt to be repaid 4 025 000 000 Dollars

Date	Sums still out- standing before maturity of Sinking Fund Payments	Rate of matured interest	Sinking Fund Payments	Interest	Total 3 + 4	Annual total. Interest Sinking Fund.
	1	2	3	4	5	6
		in	1 000	Dollars		
1924 Dec. 15		0 %		-	-	
1925 June 15	-	0 %	-	-	-	-
1924/25						
1925 Dec. 15		0 %		-	-	
1926 June 15	4 025 000	0 %	30 000	-	30 000	30 000
1925/26						
1926 Dec. 15		0 %		-	-	
1927 June 15	3 995 000	0 %	30 000	-	30 000	30 000
1926/27						
1927 Dec. 15		0 %		-	-	
1928 June 15	3 965 000	0 %	32 500	-	32 500	32 500
1927/28						
1928 Dec. 15		0 %		-	-	
1929 June 15	3 932 500	0 %	32 500	-	32 500	32 500
1928/29						
1929 Dec. 15		0 %		-	-	
1930 June 15	3 900 000	0 %	35 000	-	35 000	35 000
1929/30						
1930 Dec. 15		1 %		19 325	19 325	
1931 June 15	3 865 000	1 %	1 350	19 325	20 675	40 000
1930/31						
1931 Dec. 15		1 %		19 318.25	19 318.25	
1932 June 15	3 863 650	1 %	11 363.5	19 318.25	30 681.75	50 000
1931/32						
1932 Dec. 15		1 %		19 261.43	19 261.43	
1933 June 15	3 852 286.5	1 %	21 477.14	19 261.43	40 738.57	60 000
1932/33						
1933 Dec. 15		1 %		19 154.05	19 154.05	
1934 June 15	3 830 809.4	1 %	36 691.91	19 154.05	55 845.96	75 000
1933/34						
1934 Dec. 15		1 %		18 970.6	18 970.6	
1935 June 15	3 794 117.5	1 %	42 058.83	18 970.6	61 029.43	80 000
1934/35						
1935 Dec. 15		1 %		18 760.29	18 760.29	
1936 June 15	3 752 058.7	1 %	52 479.41	18 760.29	71 239.70	90 000
1935/36						

Statement showing payments from ITALYto the UNITED STATES OF AMERICA (1924-1936)

Total debt to be repaid 2 042 000 000 Dollars

Date.	Sums still outstanding before matur- ity of Sink- ing Fund Payments	Rate of matured interest	Sinking Fund Pay- ments	Interest	Total 3 + 4	Annual total. Interest + Sinking Fund.
	1	2	3	4	5	6
in 1 000 Dollars						
1925 June 15 1924/25	-	0 %	-	-	-	-
1926 June 15 1925/26	2 042 000	0 %	5 000	-	5 000	5 000
1927 June 15 1926/27	2 037 000	0 %	5 000	-	5 000	5 000
1928 June 15 1927/28	2 032 000	0 %	5 000	-	5 000	5 000
1929 June 15 1928/29	2 027 000	0 %	5 000	-	5 000	5 000
1930 June 15 1929/30	2 022 000	0 %	5 000	-	5 000	5 000
1931 June 15 1930/31	2 017 000	1/8 %	12 100	2 521.25	14 621.25	14 621.25
1932 June 15 1931/32	2 004 900	1/8 %	12 200	2 506.13	14 706.13	14 706.13
1933 June 15 1932/33	1 992 700	1/8 %	12 300	2 490.88	14 790.88	14 790.88
1934 June 15 1933/34	1 980 400	1/8 %	12 600	2 475.50	15 075.50	15 075.50
1935 June 15 1934/35	1 967 800	1/8 %	13 000	2 459.75	15 459.75	15 459.75
1936 June 15 1935/36	1 954 800	1/8 %	13 500	2 443.5	15 943.5	15 943.5

Statement showing payments from BELGIUMto the UNITED STATES OF AMERICA (1924-1936)Total debt to be repaid 171 780 000 Dollars pre-Armistice
and 246 000 000 Dollars post-Armistice

Date	Sums still out- standing before maturity of Sinking Fund Payments		Sinking Fund Payments of the Debt		Interest		Total	Annual total. Interest + Sinking Fund
					Debt			
	Pre- Armis- tice	Post Armis- tice	Pre- Armis- tice	Post Armis- tice	Pre- Armis- tice	Post Armis- tice		
	1	2	3	4	5	6	7	8
	in 1 000 dollars							
1924 Dec. 15					-	-	-	
1925 June 15	-	-	-		-	-	-	
1924/25								
1925 Dec. 15					-	870	870	
1926 June 15	171 780	246 000	1 000	1 100	-	870	2 970	3 840
1925/26								
1926 Dec. 15					-	1 000	1 000	
1927 June 15	170 780	244 900	1 000	1 100	-	1 000	3 100	4 100
1926/27								
1927 Dec. 15					-	1 125	1 125	
1928 June 15	169 780	243 800	1 250	1 200	-	1 125	3 575	4 700
1927/28								
1928 Dec. 15					-	1 250	1 250	
1929 June 15	168 530	242 600	1 750	1 200	-	1 250	4 200	5 450
1928/29								
1929 Dec. 15					-	1 375	1 375	
1930 June 15	166 780	241 400	2 250	1 200	-	1 375	4 825	6 200
1929/30								
1930 Dec. 15					-	1 625	1 625	
1931 June 15	164 530	240 200	2 750	1 300	-	1 625	5 675	7 300
1930/31								
1931 Dec. 15					-	1 875	1 875	
1932 June 15	161 780	238 900	2 900	1 300	-	1 875	6 075	7 950
1931/32								
1932 Dec. 15					-	2 125	2 125	
1933 June 15	158 880	237 600	2 900	1 300	-	2 125	6 325	8 450
1932/33								
1933 Dec. 15					-	2 375	2 375	
1934 June 15	155 980	236 300	2 900	1 400	-	2 375	6 675	9 050
1933/34								
1934 Dec. 15					-	2 625	2 625	
1935 June 15	153 080	234 900	2 900	1 400	-	2 625	6 925	9 550
1934/35								
1935 Dec. 15					-	4 086	4 086	
1936 June 15	150 180	233 500	2 900	1 600	-	4 086	8 586	12 672
1935/36								

Statement showing payments from P O L A N Dt o the U N I T E D S T A T E S O F A M E R I C A (1924-1936)

Total debt to be repaid 178 560 000 Dollars

Date	Sums still out- standing before maturity of Sinking Fund Payments.	Rate of matured interest	Sinking Fund Pay- ments	Interest	Total 3 + 4	Annual total. Interest + Sinking Fund.
in 1 000 Dollars.						
1924 Dec. 15	178 000	3 %	925	2 670.--	3 595.--	
1925 June 15		3 %		2 656.12	2 656.12	
1924/25						6 251.12
1925 Dec. 15	177 075	3 %	950	2 656.13	3 606.13	
1926 June 15		3 %		2 641.87	2 641.87	
1925/26						6 248.--
1926 Dec. 15	176 125	3 %	975	2 641.88	3 616.88	
1927 June 15		3 %		2 627.25	2 627.25	
1926/27						6 244.13
1927 Dec. 15	175 150	3 %	1 000	2 627.25	3 627.25	
1928 June 15		3 %		2 612.25	2 612.25	
1927/28						6 239.50
1928 Dec. 15	174 150	3 %	1 025	2 612.25	3 637.25	
1929 June 15		3 %		2 596.88	2 596.88	
1928/29						6 234.13
1929 Dec. 15	173 125	3 %	1 050	2 596.87	3 646.88	
1930 June 15		3 %		2 581.13	2 581.13	
1929/30						6 228.01
1930 Dec. 15	172 075	3 %	1 075	2 581.12	3 656.12	
1931 June 15		3 %		2 565.--	2 565.--	
1930/31						6 221.12
1931 Dec. 15	171 000	3 %	1 100	2 565.--	3 665.--	
1932 June 15		3 %		2 548.5	2 548.5	
1931/32						6 213.50
1932 Dec. 15	169 900	3 %	1 125	2 548.5	3 673.5	
1933 June 15		3½ %		2 953.56	2 953.56	
1932/33						6 627.06
1933 Dec. 15	168 775	3½ %	1 150	2 953.56	4 103.56	
1934 June 15		3½ %		2 933.44	2 933.44	
1933/34						7 037.00
1934 Dec. 15	167 625	3½ %	1 200	2 933.44	4 133.44	
1935 June 15		3½ %		2 912.44	2 912.44	
1934/35						7 045.88
1935 Dec. 15	166 425	3½ %	1 225	2 912.44	4 137.44	
1936 June 15		3½ %		2 891.--	2 891.--	
1935/36						7 028.44

Statement showing payments from CZECHO-SLOVAKIA
 to the UNITED STATES OF AMERICA (1924-1936).
 Total debt to be repaid 115 000 000 Dollars

Date	Sinking Fund Payments and Interest	Annual total Interest + Sinking Fund
	in 1 000 Dollars	
1924 Dec. 15	-	
1925 June 15	-	
1924/25		-
1925 Dec. 15	1 500	
1926 June 15	1 500	
1925/26		3 000
1926 Dec. 15	1 500	
1927 June 15	1 500	
1926/27		3 000
1927 Dec. 15	1 500	
1928 June 15	1 500	
1927/28		3 000
1928 Dec. 15	1 500	
1929 June 15	1 500	
1928/29		3 000
1929 Dec. 15	1 500	
1930 June 15	1 500	
1929/30		3 000
1930 Dec. 15	1 500	
1931 June 15	1 500	
1930/31		3 000
1931 Dec. 15	1 500	
1932 June 15	1 500	
1931/32		3 000
1932 Dec. 15	1 500	
1933 June 15	1 500	
1932/33		3 000
1933 Dec. 15	1 500	
1934 June 15	1 500	
1933/34		3 000
1934 Dec. 15	1 500	
1935 June 15	1 500	
1934/35		3 000
1935 Dec. 15	1 500	
1936 June 15	1 500	
1935/36		3 000

Statement showing payments from JUGO - SLAVIAto the UNITED STATES OF AMERICA (1924-1936)

Total debt to be repaid 62 850 000 Dollars

Date	Sums still out- standing before maturity of Sinking Fund Payments	Rate of matured interest	Sinking Fund Payments	Interest	Total 3 + 4	Annual total Interest + Sinking Fund
	1	2	3	4	5	6
	in 1 000 Dollars					
1925 June 15 1924/25	-	0 %	-	-	-	-
1926 June 15 1925/26	62 850	0 %	200	-	200	200
1927 June 15 1926/27	62 650	0 %	200	-	200	200
1928 June 15 1927/28	62 450	0 %	200	-	200	200
1929 June 15 1928/29	62 250	0 %	200	-	200	200
1930 June 15 1929/30	62 050	0 %	200	-	200	200
1931 June 15 1930/31	61 850	0 %	225	-	225	225
1932 June 15 1931/32	61 625	0 %	250	-	250	250
1933 June 15 1932/33	61 375	0 %	275	-	275	275
1934 June 15 1933/34	61 100	0 %	300	-	300	300
1935 June 15 1934/35	60 800	0 %	325	-	325	325
1936 June 15 1935/36	59 475	0 %	350	-	350	350

Statement showing payments from RUMANIAto the UNITED STATES OF AMERICA (1924-1926)

Total debt to be repaid 44 590 000 Dollars

Date	Sinking Fund Payments and Interest	Annual total Interest + Sinking Fund
	in 1 000 Dollars	
1925 June 15 1924/25	-	-
1926 June 15 1925/26	200	200
1927 June 15 1926/27	300	300
1928 June 15 1927/28	400	400
1929 June 15 1928/29	500	500
1930 June 15 1929/30	600	600
1931 June 15 1930/31	700	700
1932 June 15 1931/32	800	800
1933 June 15 1932/33	1 000	1 000
1934 June 15 1933/34	1 200	1 200
1935 June 15 1934/35	1 400	1 400
1936 June 15 1935/36	1 600	1 600

Statement showing Payment from ESTHONIA

t o the UNITED STATES OF AMERICA (1924-1936)

Total debt to be repaid 13 830 000 Dollars

Date	Sums still out- standing before maturity of Sinking Fund Payments.	Rate of matured interest	Sinking Fund Payments	Interest	Total 3 + 4	Annual total Interest + Sinking Fund
	1	2	3	4	5	6
in 1 000 Dollars						
1924 Dec. 15	13 761	3 %	71	206.42	277.42	
1925 June 15		3 %		205.35	205.35	
1924/25						482.77
1925 Dec. 15	13 690	3 %	73	205.35	278.35	
1926 June 15		3 %		204.25	204.25	
1925/26						482.60
1926 Dec. 15	13 617	3 %	75	204.26	279.26	
1927 June 15		3 %		203.13	203.13	
1926/27						482.39
1927 Dec. 15	13 542	3 %	78	203.13	281.13	
1928 June 15		3 %		201.96	201.96	
1927/28						483.09
1928 Dec. 15	13 464	3 %	80	201.96	281.96	
1929 June 15		3 %		200.76	200.76	
1928/29						482.72
1929 Dec. 15	13 384	3 %	82	200.76	282.76	
1930 June 15		3 %		199.53	199.53	
1929/30						482.29
1930 Dec. 15	13 302	3 %	85	199.53	284.53	
1931 June 15		3 %		198.26	198.26	
1930/31						482.79
1931 Dec. 15	13 217	3 %	88	198.26	286.93	
1932 June 15		3 %		196.94	196.94	
1931/32						483.87
1932 Dec. 15	13 129	3 %	90	196.93	286.93	
1933 June 15		3½ %		228.18	228.18	
1932/33						515.11
1933 Dec. 15	13 039	3½ %	92	228.18	320.18	
1934 June 15		3½ %		226.57	226.57	
1933/34						546.75
1934 Dec. 15	12 947	3½ %	95	226.57	321.57	
1935 June 15		3½ %		224.91	224.91	
1934/35						546.48
1935 Dec. 15	12 852	3½ %	98	224.91	322.91	
1936 June 15		3½ %		223.20	223.20	
1935/36						546.11

Statement showing Payments from L A T V I At o t h e U N I T E D S T A T E S O F A M E R I C A (1924-1936)

Total debt to be repaid 5 775 000 Dollars

Date	Sums still out- standing before maturity of Sinking Fund Payments	Rate of matured interest	Sinking Fund Payments	Interest	Total 3 + 4	Annual total. Interest + Sinking Fund
	1	2	3	4	5	6
in 1 000 Dollars						
1924 Dec. 15	5 747	3 %	29	86.20	115.20	
1925 June 15		3 %		85.77	85.77	
1924/25						200.97
1925 Dec. 15	5 718	3 %	30	85.77	115.77	
1926 June 15		3 %		85.32	85.32	
1925/26						201.09
1926 Dec. 15	5 688	3 %	31	85.32	116.32	
1927 June 15		3 %		84.86	84.86	
1926/27						201.18
1927 Dec. 15	5 657	3 %	32	84.85	116.85	
1928 June 15		3 %		84.38	84.38	
1927/28						201.23
1928 Dec. 15	5 625	3 %	33	84.37	117.37	
1929 June 15		3 %		83.88	83.88	
1928/29						201.25
1929 Dec. 15	5 592	3 %	34	83.88	117.88	
1930 June 15		3 %		83.37	83.37	
1929/30						201.25
1930 Dec. 15	5 558	3 %	35	83.37	118.37	
1931 June 15		3 %		82.85	82.85	
1930/31						201.22
1931 Dec. 15	5 523	3 %	36	82.84	118.84	
1932 June 15		3 %		82.31	82.31	
1931/32						201.15
1932 Dec. 15	5 487	3 %	37	82.30	119.30	
1933 June 15		3½ %		95.38	95.38	
1932/33						214.68
1933 Dec. 15	5 450	3½ %	38	95.37	133.37	
1934 June 15		3½ %		94.71	94.71	
1933/34						228.08
1934 Dec. 15	5 412	3½ %	39	94.71	133.71	
1935 June 15		3½ %		94.03	94.03	
1934/35						227.74
1935 Dec. 15	5 373	3½ %	40	94.03	134.03	
1936 June 15		3½ %		93.33	93.33	
1935/36						227.36

Statement showing Payments from L I T H U A N I Ato the UNITED STATES OF AMERICA (1924-1936)

Total debt to be repaid 6 030 000 Dollars

Date	Sums still out- standing before maturity of Sinking Fund Payments	Rate of matured interest	Sinking Fund Payments	Interest	Total 3 + 4	Annual total Interest + Sinking Fund
	1	2	3	4	5	6
in 1 000 Dollars						
1924 Dec. 15		3 %		90.45	90.45	
1925 June 15	6.030	3 %	30	90.45	120.45	
1924/25						210.90
1925 Dec. 15		3 %		90.--	90.--	
1926 June 15	6 000	3 %	30	90.--	120.--	
1925/26						210.--
1926 Dec. 15		3 %		89.55	89.55	
1927 June 15	5 970	3 %	31	89.55	120.55	
1926/27						210.10
1927 Dec. 15		3 %		89.09	89.09	
1928 June 15	5 939	3 %	32	89.08	121.08	
1927/28						210.17
1928 Dec. 15		3 %		88.61	88.61	
1929 June 15	5 907	3 %	33	88.60	121.60	
1928/29						210.21
1929 Dec. 15		3 %		88.11	88.11	
1930 June 15	5 874	3 %	34	88.11	122.11	
1929/30						210.22
1930 Dec. 15		3 %		87.6	87.60	
1931 June 15	5 840	3 %	35	87.6	122.60	
1930/31						210.20
1931 Dec. 15		3 %		87.08	87.08	
1932 June 15	5 805	3 %	36	87.07	123.07	
1931/32						210.15
1932 Dec. 15		3 %		86.54	86.54	
1933 June 15	5 769	3 %	37	86.53	123.53	
1932/33						210.07
1933 Dec. 15		3 %		85.98	85.98	
1934 June 15	5 732	3 %	39	85.98	124.98	
1933/34						210.96
1934 Dec. 15		3½ %		99.63	99.63	
1935 June 15	5 693	3½ %	40	99.63	139.63	
1934/35						239.26
1935 Dec. 15		3½ %		98.93	98.93	
1936 June 15	5 653	3½ %	42	98.93	140.93	
1935/36						239.86

Statement showing Payments from FINLANDto the UNITED STATES OF AMERICA (1924-1936)

Total debt to be repaid 9 000 000 Dollars

Date	Sums still out- standing, before maturity of Sinking Fund Payments.	Rate of matured interest	Sinking Fund Payments	Interest	Total 3 + 4	Annual total. Interest + Sinking Fund.
	1	2	3	4	5	6
in 1 000 Dollars						
1924 Dec. 15	8 955	3 %	45	134.32	179.32	
1925 June 15		3 %		133.65	133.65	
1924/25						312.97
1925 Dec. 15	8 910	3 %	47	133.65	180.65	
1926 June 15		3 %		132.94	132.94	
1925/26						313.59
1926 Dec. 15	8 863	3 %	49	132.95	181.95	
1927 June 15		3 %		132.21	132.21	
1926/27						314.16
1927 Dec. 15	8 814	3 %	50	132.21	182.21	
1928 June 15		3 %		131.46	131.46	
1927/28						313.67
1928 Dec. 15	8 764	3 %	52	131.46	183.46	
1929 June 15		3 %		130.68	130.68	
1928/29						314.14
1929 Dec. 15	8 712	3 %	53	130.68	183.68	
1930 June 15		3 %		129.89	129.89	
1929/30						313.57
1930 Dec. 15	8 659	3 %	55	129.88	184.88	
1931 June 15		3 %		129.06	129.06	
1930/31						313.94
1931 Dec. 15	8 604	3 %	55	129.06	184.06	
1932 June 15		3 %		128.24	128.24	
1931/32						312.30
1932 Dec. 15	8 549	3 $\frac{1}{2}$ %	58	128.23	186.23	
1933 June 15		3 $\frac{1}{2}$ %		148.59	148.59	
1932/33						334.82
1933 Dec. 15	8 491	3 $\frac{1}{2}$ %	62	148.59	210.59	
1934 June 15		3 $\frac{1}{2}$ %		147.51	147.51	
1933/34						358.10
1934 Dec. 15	8 429	3 $\frac{1}{2}$ %	62	147.51	209.51	
1935 June 15		3 $\frac{1}{2}$ %		146.37	146.37	
1934/35						355.88
1935 Dec. 15	8 367	3 $\frac{1}{2}$ %	65	146.37	211.37	
1936 June 15		3 $\frac{1}{2}$ %		145.20	145.20	
1935/36						356.57

Statement showing Payments from HUNGARYto the UNITED STATES OF AMERICA (1924-1936)

Total debt to be repaid 1 939 000 Dollars

Date	Sums still out- standing before maturity of Sinking Fund Payments	Rate of matured interest	Sinking Fund Payments	Interest	Total 3 + 4	Annual total. Interest Sinking Fund
	1	2	3	4	5	6
		in 1 000		Dollars		
1924 Dec. 15	1 939.-	3 %	9.6	29.08	38.68	
1925 June 15		3 %		28.94	28.94	
1924/25						67.62
1925 Dec. 15	1 929.4	3 %	9.8	28.94	38.74	
1926 June 15		3 %		28.79	28.79	
1925/26						67.53
1926 Dec. 15	1 919.6	3 %	10.-	28.79	38.79	
1927 June 15		3 %		28.64	28.64	
1926/27						67.43
1927 Dec. 15	1 909.6	3 %	10.2	28.64	38.84	
1928 June 15		3 %		28.49	28.49	
1927/28						67.33
1928 Dec. 15	1 899.4	3 %	10.4	28.49	38.89	
1929 June 15		3 %		28.34	28.34	
1928/29						67.23
1929 Dec. 15	1 889.-	3 %	11.-	28.33	39.33	
1930 June 15		3 %		28.17	28.17	
1929/30						67.50
1930 Dec. 15	1 878.-	3 %	11.5	28.17	39.67	
1931 June 15		3 %		28.-	28.-	
1930/31						67.67
1931 Dec. 15	1 866.5	3 %	12.-	28.-	40.-	
1932 June 15		3 %		27.82	27.82	
1931/32						67.82
1932 Dec. 15	1 854.5	3 %	12.-	27.82	39.82	
1933 June 15		3 %		27.64	27.64	
1932/33						67.46
1933 Dec. 15	1 842.5	3 %	12.5	27.64	40.14	
1934 June 15		3 1/2 %		32.03	32.03	
1933/34						72.17
1934 Dec. 15	1 830.-	3 1/2 %	12.5	32.02	44.52	
1935 June 15		3 1/2 %		31.81	31.81	
1934/35						76.33
1935 Dec. 15	1 817.5	3 1/2 %	13.-	31.81	44.81	
1936 June 15		3 1/2 %		31.58	31.58	
1935/36						76.39

SUMMARY OF PAYMENTS TO THE

Dates	Great	France	Italy	Belgium	Poland	Czecho-
	Britain					Slovakia
						i n
1924, Dec. 15	91,655				3,595	
1925, June 15	68,310				2,656	
1924/25	159,965				6,251	
1925, Dec. 15	92,310			870	3,606	1,500
1926, June 15	67,950	30,000	5,000	2,970	2,642	1,500
1925/26	160,260	30,000	5,000	3,840	6,248	3,000
1926, Dec. 15	92,950			1,000	3,617	1,500
1927, June 15	67,575	30,000	5,000	3,100	2,627	1,500
1926/27	160,525	30,000	5,000	4,100	6,244	3,000
1927, Dec. 15	92,575			1,125	3,628	1,500
1928, June 15	67,200	32,500	5,000	3,575	2,612	1,500
1927/28	159,775	32,500	5,000	4,700	6,240	3,000
1928, Dec. 15	94,200			1,250	3,637	1,500
1929, June 15	66,795	32,500	5,000	4,200	2,597	1,500
1928/29	160,995	32,500	5,000	5,450	6,234	3,000
1929, Dec. 15	93,795			1,375	3,647	1,500
1930, June 15	66,390	35,000	5,000	4,825	2,581	1,500
1929/30	160,185	35,000	5,000	6,200	6,228	3,000
1930, Dec. 15	94,390	19,325		1,625	3,656	1,500
1931, June 15	65,970	20,675	14,621	5,675	2,565	1,500
1930/31	160,360	40,000	14,621	7,300	6,221	3,000
1931, Dec. 15	93,970	19,318		1,875	3,665	1,500
1932, June 15	65,550	30,682	14,706	6,075	2,549	1,500
1931/32	159,520	50,000	14,706	7,950	6,214	3,000
1932, Dec. 15	95,550	19,261		2,125	3,673	1,500
1933, June 15	75,950	40,739	14,791	6,325	2,954	1,500
1932/33	171,500	60,000	14,791	8,450	6,627	3,000
1933, Dec. 15	107,950	19,154		2,375	4,104	1,500
1934, June 15	75,390	55,846	15,076	6,675	2,933	1,500
1933/34	183,340	75,000	15,076	9,050	7,037	3,000
1934, Dec. 15	107,390	18,971		2,625	4,134	1,500
1935, June 15	74,830	61,029	15,460	6,925	2,912	1,500
1934/35	182,220	80,000	15,460	9,550	7,046	3,000
1935, Dec. 15	106,830	18,760		4,086	4,137	1,500
1936, June 15	74,270	71,240	15,944	8,586	2,891	1,500
1935/36	181,100	90,000	15,944	12,672	7,028	3,000

Payments made to the United States before the conclusion of funding

UNITED STATES OF AMERICA (1924-1936)

Serbia	Rumania	Esth- onia	Lat- via	Lithu- ania	Fin- land	Hun- gary	Germany	GRAND TOTAL
1 000		d o l l a r s						
		278	115	91	179	39		
		205	86	120	134	29		
		483	201	211	313	68	3,657	171,149
		279	116	90	181	39		
200	200	204	85	120	133	29		
200	200	483	201	210	314	68	4,661	214,685
		279	116	89	182	39		
200	300	203	85	121	132	28		
200	300	482	201	210	314	67	18,854	229,497
		281	117	89	182	39		
200	400	202	84	121	132	28		
200	400	483	201	210	314	67	20,128	233,218
		282	117	89	183	40		
200	500	201	84	121	131	28		
200	500	483	201	210	314	68	23,809	238,964
		283	118	88	184	39		
200	600	199	83	122	130	28		
200	600	482	201	210	314	67	23,809	241,496
		285	118	88	185	40		
225	700	198	83	122	129	28		
225	700	483	201	210	314	68	23,809	257,512
		287	119	87	184	40		
250	800	197	82	123	128	28		
250	800	484	201	210	312	68	23,809	267,524
		287	119	87	186	40		
275	1,000	228	95	123	149	27		
275	1,000	515	215	210	335	67	23,809	290,794
		320	133	86	211	40		
300	1,200	227	95	125	147	32		
300	1,200	547	228	211	358	72	23,809	319,228
		321	134	100	210	44		
325	1,400	225	94	139	146	32		
325	1,400	546	228	239	356	76	23,809	324,255
		323	134	99	212	45		
350	1,600	223	93	141	145	31		
350	1,600	546	227	240	357	76	23,809	336,949

agreements are not included.

B. Payments to Great Britain.

The following table of the amounts owing to Great Britain as at March 31 1926 ⁽¹⁾, makes it possible to ascertain the relative importance of the agreements already concluded by Great Britain with her debtors:

<u>Allied War Debts.</u>	<u>(In £ sterling)</u>
a) Funded :	
Italy ...	274 750 000
Rumania	<u>31 250 000</u>
	306 000 000
b) Not funded :	
France ...	647 106 000
Russia ...	794 505 000
Jugo-Slavia	31 400 000
Portugal	23 733 000
Greece ...	<u>21 167 000</u>
	<u>1 517 911 000</u>
General total	<u>1 823 911 000</u>
<u>Relief and Reconstruction loans.</u>	
a) Funded	20 369 000
b) Not funded	<u>14 538 000</u>
	34 907 000
<u>Other Debts.</u>	
a) Funded	3 344 000
b) Not funded	<u>1 488 000</u>
	<u>4 832 000</u>
Grand Total	<u><u>1 863 650 000</u></u>

(1) Financial statement 1926-27.

Since March 31, 1926, an agreement has been concluded with France; it has not yet been ratified.

Excluding the debt owing to Great Britain from Russia and considering the debt due from France as having been funded, we find that the figures for payments from Italy and France cover almost 90 per cent of the total debts owing to Great Britain. A consideration of the funding agreements with these two countries will, therefore, indicate the position of Great Britain with relative accuracy.

Below will be found statements showing the sums to be paid to Great Britain by Italy and France during the years in questions.

British Debt Agreement with Italy.

Article 7 of the Agreement concluded by Great Britain with Italy deserves special attention. This article provides that the 22 200 000 pounds sterling in gold, belonging to Italy and deposited in virtue of the 1915 Agreements as security for the Italian War Debt, shall be retained by Great Britain as a deposit without interest and subsequently returned to Italy, as follows: 1 000 000 pounds sterling in eight equal instalments on September 15 and March 15 of each of the four years beginning September 15 1928 and ending March 15 1932, and the balance in equal half-yearly instalments from September 15 1932 to September 1937, on condition that all the annuities owed have been paid in full on the date of maturity.

The payments in actual gold to be made by Great Britain to Italy must therefore be set off against the payments to be made by Italy to Great Britain. It is only necessary to take the balance of the two transactions into consideration.

Statement showing Payments from ITALYt o GREAT BRITAIN (1924-1936)

Date	Capital and Interest	Gold to be restored by Great Britain	Balance owed by Italy		Annual total
			in £ 1 000	in 1 000 dollars *	
1924 Sept. 15	-	-	-	-	
1925 March 15	-	-	-	-	
1924/1925					-
1925 Sept. 15	-	-	-	-	
1926 March 15	2 000	-	2 000	9 733.12	
1925/1926					9 733.12
1926 Sept. 15	2 000	-	2 000	9 733.12	
1927 March 15	2 000	-	2 000	9 733.12	
1926/1927					19 466.24
1927 Sept. 15	2 000	-	2 000	9 733.12	
1928 March 15	2 000	-	2 000	9 733.12	
1927/1928					19 466.24
1928 Sept. 15	2 125	125	2 000	9 733.12	
1929 March 15	2 125	125	2 000	9 733.12	
1928/1929					19 466.24
1929 Sept. 15	2 125	125	2 000	9 733.12	
1930 March 15	2 125	125	2 000	9 733.12	
1929/1930					19 466.24
1930 Sept. 15	2 125	125	2 000	9 733.12	
1931 March 15	2 125	125	2 000	9 733.12	
1930/1931					19 466.24
1931 Sept. 15	2 125	125	2 000	9 733.12	
1932 March 15	2 125	125	2 000	9 733.12	
1931/1932					19 466.24
1932 Sept. 15	2 250	190.99	2 059.01	10 020.30	
1933 March 15	2 250	190.99	2 059.01	10 020.30	
1932/1933					20 040.60
1933 Sept. 15	2 250	190.99	2 059.01	10 020.30	
1934 March 15	2 250	190.99	2 059.01	10 020.30	
1933/1934					20 040.60
1934 Sept. 15	2 250	190.99	2 059.01	10 020.30	
1935 March 15	2 250	190.99	2 059.01	10 020.30	
1934/1935					20 040.60
1935 Sept. 15	2 250	190.99	2 059.01	10 020.30	
1936 March 15	2 250	190.99	2 059.01	10 020.30	
1935/1936					20 040.60

* 4.86656 dollars = £1.

British Debt Agreement with France.

The agreement concluded with France provides the following payments:

Statement showing payments from FRANCE

t o

G R E A T B R I T A I N (1924-1936)

Date	Sum to be paid	Sum to be paid	Annual total
	in £ 1 000	in \$ 1 000 *	in \$ 1 000
1924 Sept. 15	-	-	
1925 March 15	-	-	
1924/1925			-
1925 Sept. 15	-	-	
1926 March 15	-	-	
1925/1926			-
1926 Sept. 15	2 000	9 733	
1927 March 15	2 000	9 733	
1926/1927			19 466
1927 Sept. 15	3 000	14 600	
1928 March 15	3 000	14 600	
1927/1928			29 200
1928 Sept. 15	4 000	19 466	
1929 March 15	4 000	19 466	
1928/1929			38 932
1929 Sept. 15	5 000	24 333	
1930 March 15	5 000	24 333	
1929/1930			48 666
1930 Sept. 15	6 250	30 416	
1931 March 15	6 250	30 416	
1930/1931			60 832
1931 Sept. 15	6 250	30 416	
1932 March 15	6 250	30 416	
1931/1932			60 832
1932 Sept. 15	6 250	30 416	
1933 March 15	6 250	30 416	
1932/1933			60 832
1933 Sept. 15	6 250	30 416	
1934 March 15	6 250	30 416	
1933/1934			60 832
1934 Sept. 15	6 250	30 416	
1935 March 15	6 250	30 416	
1934/1935			60 832
1935 Sept. 15	6 250	30 416	
1936 March 15	6 250	30 416	
1935/1936			60 832

* \$ 4.86656 = £ 1.

In addition to the payments which France has to make to Great Britain under the funding agreement, there are obligations assumed under previous agreements, to make repayment of the advances from the Bank of England and to pay for War stocks ceded by the British to the French Government. These obligations are quite substantial in the course of the next few years.

ADVANCES BY THE BANK OF ENGLAND.

The advances by the Bank of England were made during the War to the Banque de France for account of the French Government, and were secured by the deposit of gold up to one third of the sums advanced.

The advances are represented by bonds carrying interest at one per cent more than the Bank of England discount rate, and in any case not less than 6 per cent.

The amount of the advances was originally fixed at £ 60 000 000. It was subsequently raised to £ 72 000 000, and later reduced to £ 65 000 000 through drafts on the proceeds of the 4 per cent loan issued in 1918 on the English market. The amount of the gold deposit has varied accordingly.

The advances by the Bank of England were originally to have been amortised by a series of payments extending over the period from September 1922 to August 1923. At that date £ 10 000 000 were repaid, and the gold deposit was reduced to £ 18 350 615. At the same time, an arrangement was made for the repayment of the balance of the debt, aggregating £ 55 000 000 as follows:

	<u>In millions of £ sterling</u>
1924	5
1925	6
1926	7
1927	8
1928	9
1929	15
1930	5
	<hr/> 55

These figures show only the capital of the debt. If interest is included, the payments appear to work out as follows: (1)

	<u>millions of £.</u>
1926	9.1
1927	9.6
1928	10.0
1929	15.5
1930	5.0

We have not been able with the documents available in Berlin, to ascertain exactly the dates on which the payments from the Bank of France to the Bank of England fall due. Similarly, we have been unable to find the exact amount of the interest paid in 1925. In order to be able to draw up a general table going back to 1925, we have assumed, on a basis of the payments for following years, that the interest for 1925 amounted to £3 000 000.

It would appear from the fragmentary information at our disposal that the payments fall due in February and August. If this is so, the payments effected during a Reparation Annuity year would coincide with those effected during the calendar year. On this basis, the payments falling due within the Reparation years would be as follows:-

<u>Annuity year</u>	<u>In millions of £ sterling</u>
1924-1925	9
1925-1926	9.1
1926-1927	9.6
1927-1928	10
1928-1929	15.5
1929-1930	5

(1) Table F of the Annex to Chapter 6 of the French Experts' Plan.

The Agreement made in 1923 between the Bank of England and the Banque de France also included provisions in regard to the return of the gold deposited as security. It is to be returned as follows:

On May 31 1928	£1 000 000
From May 31 1928 to November 30 1928	2 000 000
From November 30 1928 to May 31 1929	3 000 000
From May 31 1929 to November 30 1929	4 000 000
From November 30 1929 to May 31 1930	5 000 000
From May 31 1930 to November 30 1930	<u>3 350 615</u>
	£18 350 615

In practice these refunds may be looked upon as amounting to reductions in the sums to be paid by the Banque de France. Assuming for purposes of comparison, that the period from December 1 to November 30 contemplated by the Agreement roughly corresponds to a Reparation year, the refunds of gold to be made during the coming Reparation years work out as follows:-

1927-1928	£3 000 000
1928-1929	7 000 000
1929-1930	8 350 615

The net payments from the Banque de France to the Bank of England then would work out as follows:-

(In thousands of £ sterling)

Year	Sum to be paid by Banque de France.	Gold to be refunded	Net sum to be paid by Banque de France	Net sum to be paid to Banque de France
1924-1925	9 000		9 000	
1925-1926	9 100		9 100	
1926-1927	9 600		9 600	
1927-1928	10 000	3 000	7 000	
1928-1929	15 500	7 000	8 500	
1929-1930	5 000	8 350		3 350

French Debt to Great Britain on account of War Stocks.

A distinction must be made between two kinds of stocks ceded to France by Great Britain after the War:-

1) On the one hand, deliveries were made to various French Ministries; by a contract concluded on July 8, 1920, the price of these deliveries was fixed at £2 226 069. 10. 1. This debt bore interest at the rate of 6 per cent. and was repaid in 1925.

2) Other stocks were ceded by Great Britain to the French Office for Industrial Reconstitution; the absence of any inventory and the fact that no prices had been fixed were obstacles in the way of an agreement in regard to the terms for the purchase of the material. By agreement made in March, 1923, the total price (capital plus interest) was fixed at 6 million pounds sterling, which was to be repaid in instalments as follows:-

1924	£750 000
1925	750 000
1926	1 250 000
1927	1 000 000
1928	1 250 000
1929	1 000 000

On the assumption that calendar years correspond roughly to Reparation years, the total payments by France to Great Britain for the cession of war stocks would appear to be as follows:-

Annuity years

1924-1925	£2 976 069
1925-1926	1 250 000
1926-1927	1 000 000
1927-1928	1 250 000
1928-1929	1 000 000

GOLD DEPOSITED BY FRANCE WITH THE BRITISH TREASURY.

Apart from the gold deposited with the Bank of England as already stated, the Banque de France during the War deposited some gold with the British Treasury as security for the advances made by the latter to the French Government. The gold thus deposited amounts to £53 500 000.

The Caillaux-Churchill Agreement makes the following stipulations in regard to these deposits:-

It is provided that, in addition to the debt funded by the Agreement and which is to be repaid in 62 annuities, "the sum of £53 500 000 shall remain as a non-interest-bearing debt of France to Great Britain, the repayment of which will be settled by a further Agreement. Meanwhile the British Government will retain (without interest) against this debt the gold remitted to London by the French Government during the War under the Calais Agreement".

Accordingly, the £53 500 000 in gold still belongs to France, but it is only by redeeming it that she can secure its return.

SUMMARY OF PAYMENTS FROM FRANCE TO GREAT BRITAIN:

On the whole, the total payments from France to Great Britain during the period considered may be summarised as follows:-

Summary of payments from FRANCEto GREAT BRITAIN (1924-1936)

Years	Caillaux- Churchill Agreement	(1) Net advances of the Bank of England	Payments in respect of stocks ceded	Total	Total *
	in 1 000 pounds sterling				in 1 000 \$
1924/25	-	9 000	2 976	11 976	58 282
1925/26	-	9 100	1 250	10 350	50 369
1926/27	4 000	9 600	1 000	14 600	71 052
1927/28	6 000	7 000	1 250	14 250	69 348
1928/29	8 000	8 500	1 000	17 500	85 165
1929/30	10 000	(-3 350)	-	6 650	32 363
1930/31	12 500			12 500	60 832
1931/32	12 500			12 500	60 832
1932/33	12 500			12 500	60 832
1933/34	12 500			12 500	60 832
1934/35	12 500			12 500	60 832
1935/36	12 500			12 500	60 832

(1) After deducting gold to be returned to France.

* 4.86656 dollars = £1.

Special attention should be given to the following Article of the Agreements concluded by Great Britain with Italy and France (Art. 5 of the French Agreement and Art. 6 of the Italian Agreement):

"If at any time it appears that the aggregate payments effectively received by Great Britain under Allied War Debt Funding Agreements and on account of Reparations or of Liberation Bonds exceed the aggregate payments effectively made by Great Britain to the Government of the United States of America in respect of war debts, an account shall be drawn up by the British Treasury, interest at 5 per cent being allowed on both sides of the account; and if that account shows that the receipts exceed the payments Great Britain will credit France (Italy) against the payments next due by France (Italy) under Article 1 of this Agreement with such proportion of that excess as the payments effectively made by France (Italy) under Article 1 of this Agreement bear to the aggregate sums effectively received by Great Britain under all Allied War Debt Funding Agreements. Thereafter a similar account will be drawn up by the British Treasury each year, and any further excess of the receipts over the payments shall each year give rise to a credit to France (Italy) of a proportion of such excess calculated in the manner indicated above. On the other hand, any deficit shall be made good by an increase in the payments next due by France (Italy) up to a similar proportion of such deficit within the limit of the total amount of the credits already allowed to France (Italy) under this Article.

"For the purpose of this Article any capital sums which may hereafter be realised by Great Britain in respect of Reparations or of Liberation Bonds will be taken at their annual value, taking account of amortisation."

III.

NET POSITION OF THE PRINCIPAL POWERS ON ACCOUNT OF INTERALLIED
DEBTS AND REPARATIONS.

It now remains to indicate the net position of the principal creditor and debtor Powers, during the period under consideration.

Germany.

Germany is only a debtor country. Her payments are those fixed by the Experts' Plan and vary from \$ 213 680 000 in 1924-25 to \$ 329 445 000 in 1926-27, and \$ 569 440 000 from 1928/29 onwards.

United States of America.

The United States is only a creditor country. The sums receivable during the twelve years under consideration are as follows:

1924/25	-	\$ 171 149 000
1925/26	-	214 685 000
1926/27	-	229 497 000
1927/28	-	233 218 000
1928/29	-	238 964 000
1929/30	-	241 496 000
1930/31	-	257 512 000
1931/32	-	267 524 000
1932/33	-	290 794 000
1933/34	-	319 228 000
1934/35	-	324 255 000
1935/36	-	336 949 000

Great Britain

Great Britain is both a creditor and debtor country. The balance sheet for her receipts and payments for the twelve years under consideration would be as follows:

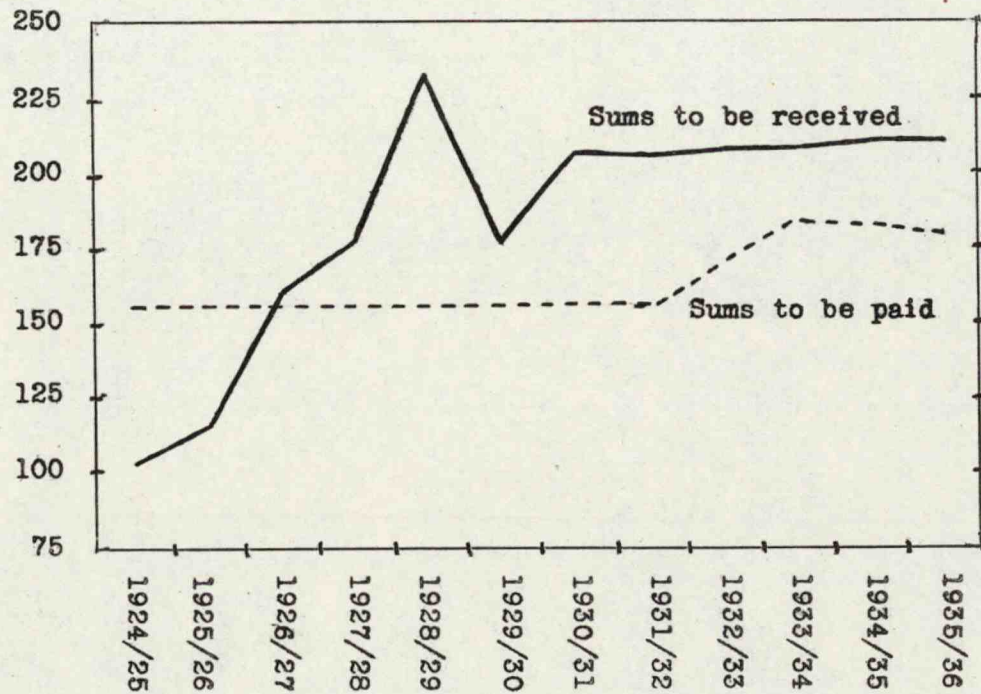
(In thousands of dollars)

YEARS	Sums to be received from			GRAND TOTAL of Receipts	Sums to be paid by Great Britain to the United States	Surplus	
	France	Italy	Germany			of payments	available for Great Britain
1924/25	58 282	-	45 487	103 769	159 965	56 196	-
1925/26	50 369	9 733	56 782	116 884	160 260	43 376	-
1926/27	71 052	19 466	72 479	162 997	160 525	-	2 472
1927/28	69 348	19 466	87 141	175 955	159 775	-	16 180
1928/29	85 165	19 466	127 471	232 102	160 995	-	71 107
1929/30	32 363	19 466	125 142	176 971	160 185	-	16 786
1930/31	60 832	19 466	124 118	204 416	160 360	-	44 056
1931/32	60 832	19 466	125 175	205 473	159 520	-	45 953
1932/33	60 832	20 041	125 815	206 688	171 500	-	35 188
1933/34	60 832	20 041	125 815	206 688	183 340	-	23 348
1934/35	60 832	20 041	128 912	209 785	182 220	-	27 565
1935/36	60 832	20 041	128 912	209 785	181 100	-	28 685

The following diagram shows more graphically the position of Great Britain.

G R E A T B R I T A I N

(in millions of dollars)



During the first two years the payments made by Great Britain were greater than her receipts. It is only in the year 1926/27 that her receipts exceed her payments and thereafter there will be a substantial annual surplus if the Experts' Plan is carried out in full. There seems to be no great likelihood however, that her debtors will very soon benefit by any reduction in their payments in accordance with the terms of the Agreements concluded, since the surplus sums received must first go to cover the deficits of the years which have elapsed since the conclusion of the British Agreement with the United States.

It should here be noted that any reduction in Reparation payments would affect twice over the Powers which are debtors of Great Britain and at the same time creditors of Germany. It would affect them directly by the reduction in their own receipts from reparations, and indirectly by removing^{or restricting} the possibility of reductions in their own payments to Great Britain, which they might hope to realise in a few years' time if the Experts' Plan is carried out in full.

France.

The balance sheet for France would be as follows:

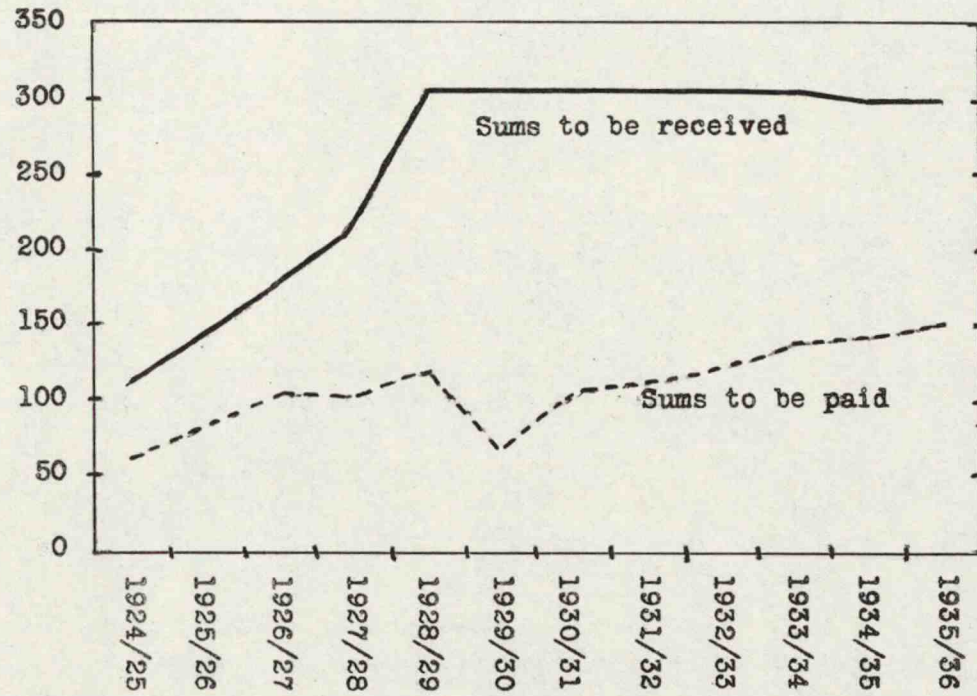
(In thousands of dollars)

Years	Sums to be received Germany	Sums to be paid			Available balance
		United States	Great Britain	Total	
1924/25	108 217	-	58 282	58 282	49 935
1925/26	138 996	30 000	50 369	80 369	58 627
1926/27	176 529	30 000	71 052	101 052	75 477
1927/28	209 711	32 500	69 348	101 848	107 863
1928/29	303 752	32 500	85 165	117 665	186 087
1929/30	304 950	35 000	32 363	67 363	237 587
1930/31	305 974	40 000	60 832	100 832	205 142
1931/32	303 945	50 000	60 832	110 832	193 113
1932/33	302 719	60 000	60 832	120 832	181 887
1933/34	302 719	75 000	60 832	135 832	166 887
1934/35	297 271	80 000	60 832	140 832	156 439
1935/36	297 271	90 000	60 832	150 832	146 439

On the assumption that the Experts' Plan is carried out in full, France would thus receive during the coming years large surpluses which would reach their maximum amount in 1929/30. The following diagram, shows the position graphically:

FRANCE

(in millions of dollars)



France also has franc claims against her former Allies and certain European countries, resulting from cash advances, advances in the form of delivery of securities or opening of book credits, and the cession of material. These claims stood as follows on June 30 1924:

	<u>(In French francs)</u>
Russia (old régime)	6 023 300 000 (1)
Russia (various Governments)	490 000 000
Belgium	3 067 295 000

(1) Including bonds for 1 474 000 000 francs discounted at the Banque de France.

Jugo-Slavia	1 738 566 000	(1)
Rumania	1 132 000 000	
Greece	537 514 000	(2)
Poland	895 400 000	
Czecho-Slovakia	542 200 000	
Italy	350 273 000	
Portugal	9 000 000	
Esthonia	3 500 000	
Latvia	9 000 000	
Lithuania	2 300 000	
Hungary	800 000	
Austria	331 926 000	
	<u>15 133 074 000</u>	(3)

If we deduct from this total the claim against Belgium, which was taken over by Germany under the conditions laid down at the Conference of Finance Ministers, and the claims against Russia, which may be considered to be specially doubtful, the total of these capital claims is reduced to 5 552 479 000 francs, or (at 25.5 francs to the dollar) about 218 million dollars.

(1) Including:

1. book credits for 399 380 000 francs
2. an advance of 13 300 000 francs to Montenegro.

(2) Including book credits for 330 000 000 francs.

(3) Of this total 1 518 000 000 francs are covered by budgetary credits. The claims in foreign currency have been converted into francs at the rate of June 30, 1924.

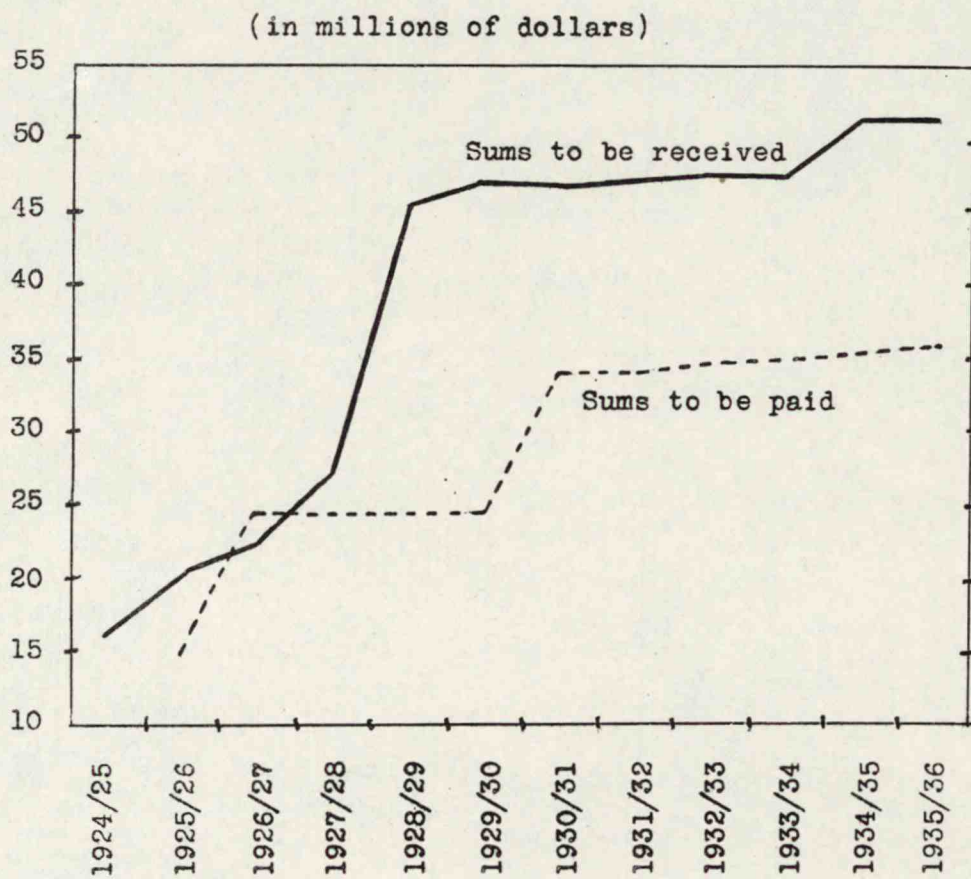
Italy.

The balance-sheet for Italy would be as follows:-

(In thousands of dollars)

Years	<u>Sums to be received</u> Germany	Sums to be paid			Available balance
		U.S.A.	Great Britain	Total	
1924/25	15 908	-	-	-	15 908
1925/26	20 275	5 000	9 733	14 733	5 542
1926/27	22 548	5 000	19 466	24 466	Dr. 1 918
1927/28	27 535	5 000	19 466	24 466	3 069
1928/29	45 563	5 000	19 466	24 466	21 097
1929/30	46 718	5 000	19 466	24 466	22 252
1930/31	46 718	14 621	19 466	34 087	12 631
1931/32	47 138	14 706	19 466	34 172	12 966
1932/33	47 391	14 791	20 041	34 832	12 559
1933/34	47 391	15 076	20 041	35 117	12 274
1934/35	50 976	15 460	20 041	35 501	15 475
1935/36	50 976	15 944	20 041	35 985	14 991

By comparison with the others, the figures for Italy are relatively small. The following diagram, shows the position graphically:

I T A L YRECAPITULATIVE TABLES.

In conclusion, it may be well to summarise the foregoing data in the following tables and charts, which show for each year the net balance of receipts or payments for each of the principal Powers.

STATEMENT SHOWING NET BALANCES OF RECEIPTS AND PAYMENTS FOR THE RESPECTIVE POWERS

A. POWERS WHOSE RECEIPTS ARE GREATER THAN THEIR PAYMENTS.

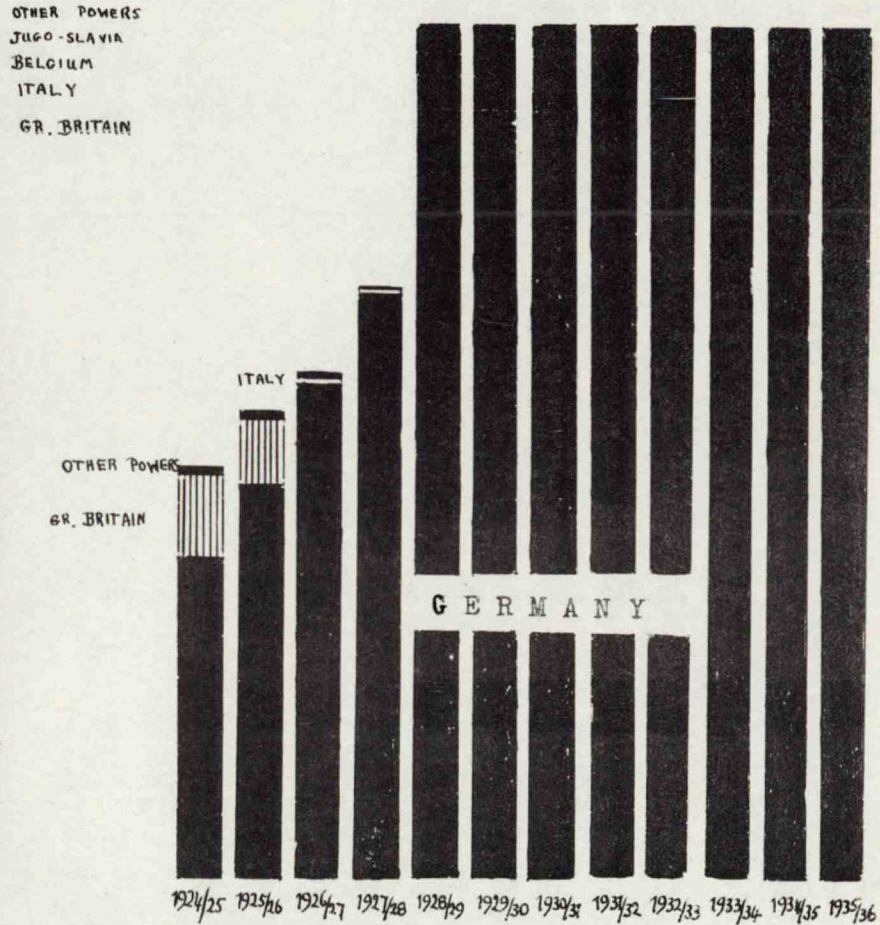
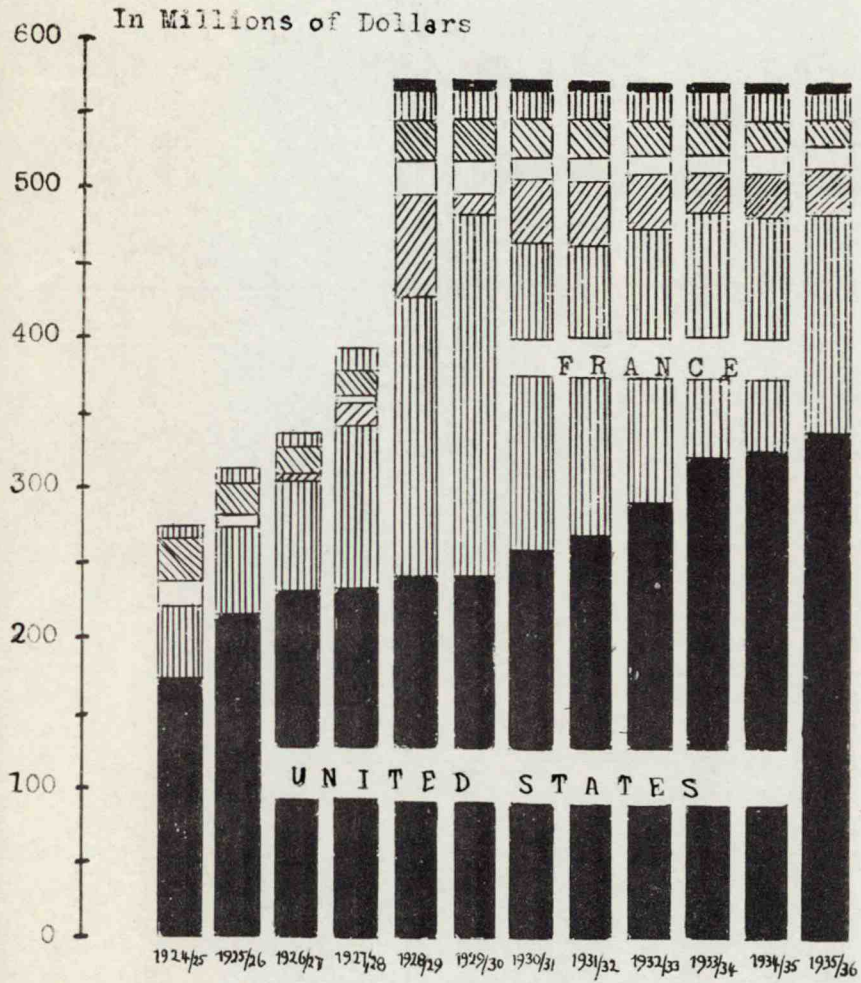
YEARS	United States	France	Great Britain	Italy	Belgium	Jugo-Slavia	Other Powers
(In thousands of dollars)							
1924/25	171,149	49,935	-	15,908	27,606	7,961	-
1925/26	214,685	58,627	-	5,542	22,036	9,946	-
1926/27	229,497	75,477	2,472	-	15,948	11,083	-
1927/28	233,218	107,863	16,180	3,069	18,466	13,579	-
1928/29	238,964	186,087	71,107	21,097	27,899	20,854	3,433
1929/30	241,496	237,587	16,786	22,252	27,149	20,854	3,315
1930/31	257,512	205,142	44,056	12,631	26,049	20,829	3,221
1931/32	267,524	193,113	45,953	12,966	25,634	20,993	3,257
1932/33	290,794	181,887	35,188	12,559	25,276	21,082	2,654
1933/34	319,228	166,887	23,348	12,274	24,676	21,057	1,970
1934/35	324,255	156,439	27,565	15,475	20,232	22,647	2,827
1935/36	336,949	146,439	28,685	14,991	17,110	22,622	2,644

B. POWERS WHOSE PAYMENTS ARE GREATER THAN THEIR RECEIPTS.

YEARS	Germany	Great Britain	Italy	Other Powers
1924/25	213,680	56,196	-	2,683
1925/26	262,909	43,376	-	4,551
1926/27	329,445	-	1,918	3,114
1927/28	390,869	-	-	1,506
1928/29	569,440	-	-	-
1929/30	569,440	-	-	-
1930/31	569,440	-	-	-
1931/32	569,440	-	-	-
1932/33	569,440	-	-	-
1933/34	569,440	-	-	-
1934/35	569,440	-	-	-
1935/36	569,440	-	-	-

STATEMENT of NET BALANCES
to be RECEIVED by POWERS.

STATEMENT of NET BALANCES
to be PAID by POWERS.



Mr. Harrison
Mr. Casper

This is one of 2 copies sent to Gov. Strong
by Mr. Gilbert. You may wish to note it.
Will you kindly return to the Governor's Office?
M.B.L.

I.I.9.444

a - DOC. 231

TRANSFER COMMITTEE
ECONOMIC SERVICE

BERLIN, January 30, 1927.

JURISDICTION AND ACTIVITIES OF THE ADVISORY
OFFICE FOR FOREIGN LOANS.

(This document is a translation of a Memorandum published by the Finance Minister of the Reich on "the jurisdiction and activities of the Advisory Office for Foreign Loans" from January 1 1925 to September 30 1926).

I. INSTITUTION AND WORK OF THE ADVISORY OFFICE.

1. During the war and post-war periods most of the German communes and associations of communes were not in a position to carry out work for the extension or technical improvement of the industrial undertakings run by them, more particularly gas, water and electricity works and tramways. During the war the necessary labour was not available. After the war the spread of inflation and the consequent disappearance of reserves and renewal funds meant a shortage of capital; only relatively few communes learnt to profit by the depreciation of the mark and, like some private industrialists, extended and improved their apparatus of production and procured new purchases.

After the war new tasks fell to the communes and continued to do so until quite recently, the result being a

Reason for the action taken by the Government of the Reich

- 2 -

further heavy strain on the communal finances.

In view of the considerable demand for capital which thus arose, it was to be feared that the communes would make the fullest use of the first opportunity for long term foreign borrowing which was afforded by the opening of the foreign capital market, and would fail to observe that restraint which consideration for the German balance of payments and ultimately for the currency rendered necessary. Apart from the great danger thus inherent in communal borrowing, a further disadvantage might have been that the not unlimited funds of the foreign capital market were withheld from industry and agriculture and granted for the most part to communes and associations of communes, since these, backed by their power of taxation, could offer the foreign lender better security than private undertakings, and consequently a greater inducement to the investment of capital.

Similar considerations naturally applied to the Federal States. These also, after the long period of shortage, required capital and endeavoured to satisfy their requirements on the foreign market. In the case of some States an additional incentive was supplied by the fact that they were urged by concerns of medium and small size to borrow abroad in order to pass on the funds obtained in the form of loans to industrial undertakings.

The Government of the Reich, which is jointly responsible with the Reichsbank for the maintenance of the currency, found itself compelled, in view of the wild rush on the foreign capital market which was to be expected, to lay stress upon general economic and currency requirements and to take steps to ensure the regulation of the loan policy of the Federal States and the communes on uniform lines. As the negotiations for agreement among the Governments of the Federal States in regard to the procedure to be observed required ample time, owing to the novelty and difficulty of the matter under consideration, and as the circumstances called for a speedy settlement, the contracting of foreign loans by the States, communes and associations of communes was in the first place made dependent on the consent of the Finance Minister of the Reich, by a decree of November 1 1924 on the contracting of foreign loans by the States, communes and associations of communes issued by the President of the Reich (Annex I). The decree of the President of the Reich was not to remain in force after January 31 1925; in the meantime the Federal States, which in principle had recognised the justification for the attitude adopted by the Government of the Reich, were to agree on a uniform procedure for the contracting of foreign loans. In addition the Governments of the States, where they had not already a right under their respective legislations to influence the

The enactments in force, Law of March 21, 1925 and the Regulations.

loan policy of the public associations and credit institutions, were to ensure the extension of their right of control.

Agreement on the procedure to be observed was obtained at the beginning of January 1925 and was drafted in the form of "Regulations for the contracting of foreign loans by the Federal States, communes and associations of communes". The extension of the right of control of the communes on the other hand was not enforced by the due date in all the States.

As the result of the Regulations the consent of the Finance Minister of the Reich provided in the decree of November 1 1924 immediately became unnecessary for loans of the States and for those of the communes and associations of communes which already required the consent of control authorities for the contracting of foreign loans. Consequently the decree of November 1 1924 had only to be retained for communes and associations of communes whose foreign borrowing was not subject to control by a Federal State. The new arrangement was brought into force by the decree on the contracting of foreign loans by the communes and associations of communes issued by the President of the Reich on January 29 1925 (Annex II). The underlying idea of this decree, the application of which was limited to February, was finally embodied, since the right to control the communes was still not extended in various States, in the Law of

March 21 1925 on the contracting of foreign loans by the communes and associations of communes, which came into force as from February 1 1925 (Annex III). The Law brings the decree of January 29 1925 into line with the Regulations, in the first place by making not only the contracting of foreign loans and the issue of loans abroad, but also the assumption of guarantees and the granting of security for foreign credits and loans by communes and associations of communes (in so far as these are not already subject to control) dependent on the consent of the Finance Minister of the Reich. Further, the Law places communal Giro associations including their banking institutions on the same footing as associations of communes, in so far as they contract foreign credits or issue loans abroad the proceeds of which are destined for the States, communes or associations of communes.

Both the Law of March 21 1925 and the agreement in regard to the Regulations are still in force to-day. The agreement applied in the first place until June 30 1925; after that date it is prolonged for periods of three months unless denounced four weeks in advance by any State.

§ 2 of the Law of March 21 1925 gives the Finance Minister of the Reich the right to transfer the right of authorisation to the supreme authority in the Federal State.

Immediately after the promulgation of the Law the Finance Minister made use of this right. In practice therefore the Governments of the States have in all cases to-day to give their consent to the contracting of foreign credits and loans, the assumption of guarantees and the granting of security in the cases prescribed above, even where under the legislation of the State in question the communes and associations of communes are not subject to control. Consequently the Government of the Reich has no legal right to-day to control the foreign borrowing of public institutions. By mutual arrangement however the Governments of the Federal States are bound not to approve the foreign loans of communes, associations of communes, communal Giro associations etc. unless they conform to certain conditions, and to obtain the opinion of the Advisory Office for foreign loans where these conditions are not fulfilled on every point.

Executory provisions, which the Finance Minister of the Reich is authorised to issue with the consent of the Reichsrat under § 3 of the Law of March 21 1925, have not been promulgated, since in the first place the Regulations proved adequate, and the Governments of the States were prepared to amend them when alterations became necessary.

Amendment
of the
Regula-
tions.

At the beginning of 1926, when giving its opinion on several joint communal loans for large amounts, the

Advisory Office was faced with the difficulty that in many individual cases local requirements were put forward which appeared to be without value for the nation as a whole. In order to remove any ambiguity to which the text of the Regulations might give rise and also to ensure the greatest possible restriction of such loans in the event of their accumulation, the Advisory Office in February 1926 proposed the amendment of the Regulations. At a meeting held on February 10 1926 the amendment proposals, which also referred to the Appeal procedure, were for the most part approved by the Governments of the Federal States and have since come into force with the consent of all the States in a form which takes into account certain wishes subsequently put forward by the Prussian Ministry of the Interior.

The essential change in the Regulations lies in the clearer interpretation given to the term productivity. The investments made with the proceeds from foreign loans, either by increasing exports or by restricting imports or in some other way, should directly or indirectly serve to promote the economic interests of the Reich as a whole; local interests in themselves are not sufficient justification. Loans which do not need to be submitted for the opinion of the Advisory Office (see page 18) are absolutely conditional upon the observance of this principle, which must also receive proper attention when loan schemes are under consideration

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by the Advisory Office. Under the amended form of the Regulations, the Advisory Office has further to consider whether the total amount of foreign loans approved or the number of applications submitted has reached a figure which, in the interests of the currency or of the loan terms which it is desirable to obtain, should not in the meantime be exceeded.

These amendments to the Regulations have considerably restricted the sphere of judgment of the Advisory Office, to which in the first place great freedom was left.

Private
loans.

2. The heavy demands made on the foreign capital market by private enterprise in 1925 brought forward the question of the necessity for controlling this class of foreign borrowing also. In addition to the danger to which the currency may be exposed as a result of the foreign borrowing of trade and commerce, in cases where the loan capital coming into the country is put to a use which is unsuitable on general grounds, there is the prospect of an effect on the loan terms to be obtained, especially as with few exceptions the terms obtained by trade and commerce are more ^{un}favourable than those granted to the Federal States and communes.

By a decree dated December 10 1925 Italy has subjected private borrowing also to control, in so far as

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the loans run for more than one year. In Germany direct intervention in the conclusion of private loans has been avoided, since the return to State control, which is to a certain extent inherent in the supervision of foreign loans contracted by private individuals, seemed in principle undesirable. Indirectly a certain influence could be brought to bear by the arrangement whereby the Finance Minister of the Reich could refuse exemption from the restricted liability to taxation under § 115 of the Income Tax Law of August 10 1925 and the reduction of the Securities Tax under § 29 paragraph 5 of the Law for a Tax on the Movement of Capital as amended by the Law of August 10 1925, for which application is probably made in every case. Where tax privileges of the kind were under consideration, the Advisory Office took part (see below) whenever there was a question of the mortgage bonds of Landschaften, Stadtschaften, mortgage banks etc.; where loans of other undertakings were under consideration, a certain connection with the Advisory Office was maintained in that various members and reporters of the Advisory Office took part in the discussion in virtue of their chief office. As the loans were almost without exception concluded before the submission of the applications for tax privileges, the rejection of the applications was bound to lead to difficulties. In order to overcome these (and not least in the interest of

- 10 -

the borrowers) the Finance Minister of the Reich has urged the Reichsverband der deutschen Industrie and the Deutscher Industrie und Handelstag to take steps to ensure that industrial undertakings etc. submit the proposed loan terms for consideration by the Finance Ministry before the final conclusion of the loan agreement, in order to ascertain whether tax privileges are likely to be granted.*

3. A further question arose as to whether the Regulations should not be extended to cover at least the foreign loans of concerns in which the Federal States, communes or associations of communes are interested to the extent of more than 50 per cent, to the foreign loans of private mortgage banks, Landschaften and landowners' credit institutions, the foreign loans of Stadtschaften and the Ecclesiastical loans to be issued abroad.

* In the meantime, in view of the improvement on the home capital market and of the fact that as early as its meeting of May 19, 1926 the Sixth Committee of the Reichstag decided in future to show greater reserve in the granting of tax privileges for foreign loans, the Finance Minister of the Reich declared on December 4, 1926 that for the present he would not be in a position to advocate tax privileges for foreign loans to the Reichsrat or Reichstag. At the meetings held on December 8/9 and 14, 1926 the Reichsrat and the Sixth Committee of the Reichstag approved this declaration by the Finance Minister. Further, the Sixth Committee of the Reichstag passed a resolution expressing the hope that in future no tax reductions would be granted for foreign loans.

Loans of undertakings which are partly publicly and partly privately owned.

The inclusion of the loans of undertakings whose capital is entirely or for the most part held by public institutions was thought to be impracticable for the present, as it was held that they should not be treated otherwise than as private undertakings. There are however reasons for considering the question as not yet finally settled. The question as to whether the conversion of a communal concern into a joint stock or limited liability company at the time when a foreign loan is contracted is to be looked upon as an evasion must be considered according to the circumstances of each individual case.

Loans of institutions under public Law such as (Landschaften, Stadtschaften) Mortgage banks etc.

In regard to the loans of institutions under public law, such as Landschaften and Stadtschaften, and the loans of private mortgage banks, an arrangement has been made with the Reichsrat, which together with the Committee of the Reichstag is consulted by the Finance Minister in regard to applications for exemption from taxation, whereby the opinion of the Advisory Office on the proposed sale abroad of mortgage bonds is submitted to the Reichsrat together with the application from the credit institution.

Ecclesiastical loans

It is only possible for the opinion of the Advisory Office to be obtained in regard to ecclesiastical loans to be issued abroad in cases where the Government of a Federal State has the right to approve the contracting of ecclesiastical loans. In Prussia this is the case. The Prussian Minister

for Science, Art and Education has in principle declared his readiness to hear the opinion of the Advisory Office before giving his consent to ecclesiastical loans. The Governments of the other Federal States do not all follow the same course. For the most part however they have promised to use their influence with the ecclesiastical departments concerned in order to induce these voluntarily to obtain the opinion of the Advisory Office before issuing a loan. Up to the present the Advisory Office had been consulted only once in regard to an ecclesiastical loan. It then became clear that it is impossible to apply the Regulations to ecclesiastical loans, so that special Regulations would be required if the Advisory Office had to express its opinion on such loans. It would however be difficult to draft such regulations.

II. MEASURES TAKEN TO RESTRICT THE FOREIGN LOANS OF PUBLIC INSTITUTIONS.

1. Loans to which the restrictions apply.

Under the Law of March 21 1925 and the Regulations (Annex IV) the following are subject to special restriction:

- a) the foreign credits and loans of the Federal States, communes and associations of communes, whether these are procured directly or indirectly through currency institutions under public law or

through private currency institutions or in some other way;

- b) foreign credits and loans of the communal Giro associations, including their banking institutions, which are destined for the Federal States, communes or associations of communes and similar loans of other credit institutions whose special function is to satisfy communal credit requirements or to administer mortgage credit;
- c) the guarantees and securities assigned by the Federal States, communes or associations of communes for foreign loans in favour of third parties.

Foreign credits and loans in the sense of the above list also include loans, the interest payments and redemption of which are to be effected in German currency, since the Advisory Office holds the view that so far as the effect on the currency is concerned it is immaterial whether foreign media of payment have to be obtained in Germany or whether Reichsmarks have to be sold abroad. The issue abroad of part of a home issue also comes under this category. In so far as separate blocks of the loan are issued abroad the Advisory Office is undoubtedly competent. In all cases in which issues of the kind have become known to it it has emphasised its competency and protested against evasions on

Foreign
loans and
credits
in German
currency

the part of the Governments of the Federal States.

The Advisory Office has always taken the term security in the sense of the Regulations to include every general guarantee based on laws, statutes or any agreement with the borrower. Consequently communal Giro associations, State banks, Stadtschaften etc. have to submit their foreign loan proposals to the Advisory Office in so far as the loans are backed, even in the last resort, by the liability of a commune, circle (Kreis) province etc. The Governments of some Federal States take a different view based on the wording of letter A of the Regulations which speaks of guarantees and security assigned for the benefit of third parties by the State, commune or association of communes. They hold that no guarantee has been assumed and no security assigned where, either through a separate legal transaction not connected with the foreign loan, or in virtue of the structure of the institution contracting the loan, a purely internal liability of a commune or association of communes exists as against the debtor. It is in their opinion essential that direct legal relations exist between the communes or associations of communes as guarantors on the one hand and the foreign lenders on the other hand. This interpretation is not in keeping with the lines on which the Regulations and the Law of March 21 1925 were built up. In

Guarantees
based on
laws, sta-
tutes or
agreements
with the
borrower

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the sense of the negotiations which led to the drafting of the Regulations it is immaterial whether the security is directly expressed to the lender or only to the borrower or whether the guarantee is merely a general one previously assumed. The action taken by public associations on behalf of third parties was, as already stated, one of the primary causes for the creation of the Advisory Office and the importance attributed to action by the taxation authorities on behalf of third parties is most clearly shown by the provisions of letter C, which denies that any cases in which guarantees are granted or security assigned can be looked upon as unobjectionable. In its widest sense the expression "security" should include all cases in which foreign credits and loans for third parties receive the support of a public association. The fact that the restriction of guarantees and security to third parties directly concerned was not contemplated is immediately clear from the Law of March 21 1925, the object of which is to fill in any gaps in the system of communal supervision and which speaks only of guarantees and security and not of guarantees and security assigned in favour of third parties.

There may be some doubt as to whether and how far the foreign loans of State banks are subject to the control of the Advisory Office. The final protocol concluded in connection with the agreement on the Regulations (Annex V),

Foreign
loans of
the State
banks.

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point 2 of which deals with the application of the Regulations to the foreign loans of State banks, is not free from ambiguity. Whereas some of the Governments are of opinion that the Regulations were not intended to apply to State banks, the Finance Ministry of the Reich holds the view that only short term foreign loans are excluded, but not long term loans. For the conclusion of long term loans is not an essential function of the State Banks and it was intended to grant independence in foreign borrowing only within the limits of regular business. Up to the present the dispute has been purely academic.

The Regulations likewise express no view on the contracting of loans by the Reich. Nevertheless, in the above mentioned final protocol, the Reich gave an assurance that in the event of recourse to foreign borrowing the Government would proceed in accordance with the principles laid down in the Regulations.

2. Right of the Governments of the Federal States to give their consent without consulting the Advisory Office.

The conditions on which the Federal States may settle questions connected with the contracting of foreign loans without application to the Advisory Office are explained in letter B of the Regulations.

Unobjection-
able foreign
loans and
credits.

According to the Regulations the material points to be considered are the form, the maximum charge, the utilisation and the guaranteeing of the loan.

Short term
loans of
the States.

a) Short term foreign loans contracted by the Federal States for not more than one year are to be looked upon as unobjectionable, in so far as they are intended for the provisional swelling of working funds and repayment is guaranteed on maturity, so that no provision is made for conversion into a long term loan.

Long term
foreign
loans

The long term foreign loans must be contracted for at least ten years but may be called in by the debtor after not more than five years. This provision is not restricted to the Federal States alone but covers equally the foreign loans of communes, associations of communes, communal Giro associations etc.

The loans are required to run for long periods (although with a restriction as to the length of time allowed - see page 25) since in principle foreign money should only be used for productive purposes and in general the degree of productivity to be attained is likely to allow of only moderate sinking fund payments in addition to the service of interest. Gradual amortisation spread over a long period reduces the demand per annum and so makes it easier for the individual debtor and the national economy to repay the

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borrowed capital to a foreign creditor. In view however of the high interest rates which still have to be paid on foreign loans, the borrower must be free to profit by the anticipated fall in the interest rate, that is, he must be able to offer to repay the capital or to reduce the rate of interest (conversion). It is for this reason that the debtor should be granted the right to repay the loan after not more than five years.

Maximum charge

b) The maximum rate of the charge involved by loans, which is fixed by the permanent members of the Advisory Office and communicated to the Governments of the Federal States according to the general position, more particularly on the foreign and home capital markets, may not be exceeded without consultation with the Advisory Office.

When the Advisory Office began to function, it fixed the maximum rate at 8 per cent. In the meantime circumstances have altered. The abolition of the prohibition on foreign loans in England at the end of the past year put an end to the monopolistic position of America on the capital market, while in the Netherlands and Switzerland interest in German loans gradually grew with the increasing economic consolidation of Germany. In addition, the German capital market grew stronger. In consequence of these developments the Advisory Office on January 22 1926 reduced

the maximum charge from 8 to 7 per cent for loan schemes not necessarily submitted to the Advisory Office.

Utilisation
of the
foreign
loans.

c) One of the most important conditions on which consultation with the Advisory Office is not required for a loan scheme is the fulfilment of the terms laid down in regard to the utilisation of the loan. Any foreign loans contracted by the States, communes or associations of communes must be used for the contracting party's own purposes or for purposes of one or other of the public bodies indicated under A of the Regulations. In particular they shall not be passed on to physical persons or bodies corporate under private law. Further they must be used for directly productive ends. The term productivity is defined as meaning that foreign loans must be employed for such profit-earning investments as by the direct production of the values guarantee out of their own income the interest and sinking fund payments on the capital invested, without having recourse to the general income of a public body. Under the amended Regulations (as already explained under I 1 above) it is said to be important that the investments, either by increasing exports, or by restricting imports, or in some other way, should directly or indirectly serve to promote the economic interests of the Reich as a whole, local interests in themselves not being considered sufficient

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justification. Further, the investments must be necessary in the sense that the projected expenditure cannot be postponed until such time as German capital is available for the purpose.

Pledges

d) The last condition required if a loan is to be considered unobjectionable is that no provision shall be made for specific pledges of any kind and that no other businesses shall be involved such as for example the sale of products of Government enterprises.

3. The procedure for the consideration
of foreign loans.

Where the conditions explained under 2 above are not in every way fulfilled, and where the Governments of the States nevertheless desire to issue or approve a loan, they are under the Regulations obliged first to hear the opinion of the Advisory Office for foreign loans. The Advisory Office must always be consulted where there is any question of assuming guarantees or assigning security.

**Composi-
tion of the
Advisory
Office**

The Advisory Office is a confidential committee of the Federal States and consists of five experts and a representative of the Federal State asking for advice. Of the experts, one is appointed by the Finance Minister of the Reich, one by the Minister for Economic Affairs of the Reich, one

by the Direktorium of the Reichsbank and two by the Federal States. In the Regulations the Federal States appointed the President of the Preussische Staatsbank and the President of the Bayerische Staatsbank as their experts. The expert appointed by the Finance Minister of the Reich takes the Chair at meetings.

The members of the Advisory Office are at present as follows:

Regular members :

Geheimer Regierungsrat Norden, Ministerialdirigent in the Finance Ministry of the Reich, Chairman,

Dr. Heintze, Ministerialrat in the Ministry of the Reich for Economic Affairs,

Reichsbankdirektor Dr. Greve, reporter to the Direktorium of the Reichsbank,

Secretary of State Dr. Schroeder, President of the Preussische Staatsbank (Seehandlung),

Arnold, President of the Bayerische Staatsbank;

Deputy members :

Dr. von Brandt, Ministerialdirektor in the Finance Ministry of the Reich,

Geheimer Regierungsrat Karlowa, Ministerialdirigent in the Finance Ministry of the Reich,

Geheimer Regierungsrat Dr. Reichardt, Ministerialdirigent in the Ministry of the Reich for Economic Affairs,

Dr. Bree, Regierungsrat in the Ministry of the Reich for Economic Affairs,

Reichsbankdirektor Ehrhardt, reporter to the Direktorium of the Reichsbank,

Staatsfinanzrat Breckenfeld, member of the General Administration of the Preussische Staatsbank,

Staatsfinanzrat Köbbner, member of the General Administration of the Preussische Staatsbank,

Staatsrat Dr. von Wolf, Bavarian deputy representative on the Reichsrat,

Oberfinanzdirektor Moroff of the Bayerische Staatsbank,

Oberfinanzdirektor Flamme of the Bayerische Staatsbank.

The management of the Advisory Office is in the hands of the Finance Ministry of the Reich.

Appeal to
the Com-
mittee of
the
Federal
States

The views of the Advisory Office are not absolutely binding on the Federal States. If however a State does not wish to comply with the opinion expressed by the Office, an effort has first to be made to come to an agreement with the Office, which has to reconsider the loan scheme at another meeting to be attended if possible by special experts (without the right to vote). If no agreement can be reached in this way, the applicant State, before coming to a final decision regarding the contracting of the loan, must consult the Committee on which all the States are represented by the number of votes corresponding to their representation in the Reichsrat (letter C, paragraph 2, of the Regulations). The

States have undertaken to comply with the decision of this Committee of the Federal States except in cases of absolute urgency. It is doubtful whether in practice it would be possible to reject the views of the Committee, since it would be difficult successfully to contract a loan against the finding of the Advisory Office and the opinion of the Committee.

It has not yet been possible in practice to refrain from consulting the Advisory Office in the matter of long term loans; on the other hand in two cases where short term foreign loans were contracted by a State temporarily to swell the working funds in the hands of its Treasury recourse to the Advisory Office was not considered necessary.

Up to the present no appeal has been made to the Committee of the Federal States, which is proof enough of the harmonious collaboration between the Advisory Office and the Government of the States. In a few cases the Advisory Office has been requested to reconsider loan schemes forming part of joint loans. In these cases the Governments of the States were in a position to bring forward new points of view which were not fully appreciated when the first decision was taken.

III. WORK OF THE ADVISORY OFFICE.

Up to the present, as stated above, no long term loans have been contracted without consultation of the Advisory Office (see letter B of the Regulations). On the contrary, all long term foreign loans of the Federal States as well as - with a few evasions - all the loans of the communes and associations of communes and those foreign loans which are accompanied by the guarantee in some form of other of a Federal State, a city, or association of communes etc. have been submitted to the Advisory Office. From January 1925 to September 30 1926 the Committee held 87 meetings and expressed its opinion on 25 communal loans, 9 State loans, 2 agricultural loans and 6 industrial loans.

The following table shows the total amounts applied for, recommended and issued:-

	<u>Applications</u> RM	<u>Recommendations</u> RM	<u>Issues</u> RM
1. Communal loans	891 178 420	461 365 200	459 828 000
2. State loans	464 508 000	409 200 000	409 200 000
3. Agricultural loans	115 000 000	115 000 000	115 000 000
4. Loans for industrial undertakings	238 500 000	213 300 000	213 300 000

The loan applications of the communes, which were largest in amount, were reduced by about 48 per cent. (For further details see Annex VI). Of the communal loans 277 627 200 RM fall to 1925 and 183 738 000 to 1926, while of the loans of the Federal States 138 600 000 RM fall to 1925 and 270 600 000 RM to 1926. For this division the date of recommendation has been taken, since it was not in every case possible exactly to ascertain the date of issue of the various loans. On a basis of the dates of issue the figures for 1926 would probably be larger.

1. Form of the foreign loans.

The form of the loans submitted to the Advisory Office was as a general rule not open to objection.

The loans ran for periods of ten, fifteen, twenty, twenty-one, twenty-five and twenty-six years; in one case the loan ran for thirty years. The average length of time is twenty or twenty-five years. Since, where loans are issued at par, the length of time influences the general charge involved, by the distribution of the discount over a corresponding period, but since there is no guarantee (especially as importance is attached to the possibility of earlier repayment) that in reality the loan will not be fully amortised before the expiration of the period for which it was issued, the Advisory Office thought it desirable in no

Length of
time for
which loans
have been
issued

case to base its calculation of the total charge on a period of more than twenty-five years.

Dates for
repayment
of loans

No loans have been submitted which could be called in a shorter period than five years; the Advisory Office has however considered loans with a longer time limit for recall which it was impossible to reduce. Examples are the loans of the Deutsche Rentenbank-Kreditanstalt and the Sächsische Landespfandbriefanstalt, which are not repayable under ten years.

Special
charges

Investigation of the agreements has frequently brought to light special charges on the borrower which for various reasons could not be looked upon as tolerable. In such cases the Advisory Office has endeavoured to obtain alterations in the agreement.

In one case the Advisory Office had occasion to deal with a delivery clause inserted in a subsidiary contract. The production of the money was made conditional on the placing of orders with the industry of the lending countries. Although the orders required were relatively small and the condition might have been compensated in part by a reciprocal obligation, the Advisory Office refused to recommend the loan on account of the importance of the principle involved.

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In many cases the lenders have secured options on loans issued later by the same debtor. In so far as there was a danger that the freedom of action of the borrower might thus be restricted for relatively too long a period, the Advisory Office recommended that alterations should be made in the draft agreement.

Real security
It was not in all cases possible to avoid assigning pledges; as far as possible however the Advisory Office has acted on the lines of letter B IV of the Regulations. It has approved of mortgage security only for loans which are agricultural or industrial in character and are guaranteed by States or communes; in the case of purely communal loans on the other hand it has refused its approval, since the pledging of public property appeared undesirable, the tax capacity of the communes should afford the lender sufficient security, and in particular the accumulation of security for public loans implies the danger that the terms for the loans of private concerns will suffer.

All agreements contain the stipulation that where real security is in future assigned for other loans the loan under consideration will be similarly secured. The justification for this demand by lenders must be admitted.

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2. Maximum charge for foreign loans which have to be submitted for approval.

Maximum charge

Consideration of the financial consequences of the loan forms a very important part of the work of the Advisory Office. The Advisory Office calculates the maximum charge on a basis of the formulae for compound interest and annuity calculations with the assistance of the Spitzer tables. The calculation is most carefully effected with the result that the total charge calculated by the Advisory Office is almost always higher than that computed by the banks and borrowers - in particular if the much used American tables are employed. The Advisory Office considers inter alia the additional charge resulting from semi-annual interest and amortisation as opposed to annual payments, as well as the increased cost of a loan, the interest on which begins to run from an earlier date than that on which the proceeds are paid over, with no provision for its reimbursement.

Until the end of 1925 the total interest charge which the Advisory Office thought tolerable on foreign loans varied between 9 and $8\frac{1}{2}$ per cent. As a result of the improved conditions on the capital market in the first quarter of 1926, the Advisory Office has since the end of March 1926 only recommended loans, the total charge on which amounted to about 8 per cent. In the last few months a further improvement in loan terms has been noticeable. This is clear both

from the nominal rate of interest and also from the net interest paid on the loans. Where previously the 7 per cent loan was the general rule, the gross rate of interest has fallen in some cases to $6\frac{1}{2}$ or even 6 per cent. The net charge on the loan of the Free State of Prussia, which the Advisory Office considered on September 24 1926, amounted approximately to only $7\frac{1}{2}$ per cent. The charge represented by the loan terms of the Free and Hanseatic City of Hamburg, on which the Advisory Office expressed an opinion on September 21 1926, works out at 7.24 per cent.

3. Utilisation of the foreign loans.

The main function of the Advisory Office is consideration of the use to which the loans are to be put.

The general conditions which must be fulfilled by loans which are looked upon as unobjectionable and so are not subject to approval have already been mentioned. As stated in the amended Regulations the same conditions are to apply when loans which have to be submitted for approval are under consideration.

1. The prohibition on loans for third parties is meant primarily to cover loans in favour of industrial groups in difficulties. Nevertheless it has repeatedly happened that public associations have contracted foreign loans for

Loans of
public asso-
ciations in
favour of
industrial
undertakings

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investment purposes on behalf of undertakings which are entirely or for the most part owned by them, or have guaranteed the loans of such undertakings. Where no special objections existed, the Advisory Office has approved such loans since the undertakings were able to obtain more favourable terms owing to the intervention of the public associations, or because the production of the money was made conditional on such intervention. In one case however, that of the Sächsische Landespfandbriefanstalt, a loan was approved in which the State guarantee was given in favour of a purely private industrial concern. The Advisory Office discussed in detail the dangers which this assumption of liability by the State might imply, more particularly because foreign lenders, if the practice were once begun, might make it a matter of principle to demand guarantees of the kind or might endeavour to force unfavourable loan terms upon industries or industrial undertakings not publicly supported in this way by the Reich or the Federal States. The Advisory Office is of opinion that attempts of the kind would fail. It is however also of opinion that liability should not be assumed by the States for the foreign loans of private undertakings. It only withdrew its objections in consideration of the quite special circumstances which induced the State of Saxony to intervene on behalf of its industry and in view of the precautions taken to ensure that

the State guarantee should apply only in the last resource. The decision in this case must not be taken to imply that assent will in future be given without difficulty in the case of guarantees for loans of private industry by public departments. This was expressly stated in the course of the conversation with the representatives of the Governments of the States held on February 10 1926.

2. The most favourable employment for the proceeds of the loan is of course their utilisation for investments which themselves produce values for export or for necessary home consumption, that is to say, values which procure or save foreign media of payment. In the case of the foreign loans of the Federal States and Communes, the achievement of this end is immediately clear only in a few cases, such as the harbour schemes of Hamburg and Bremen etc. The Advisory Office has however given preference to loans which at least indirectly reach the end in view owing to the fact that the acquisitions or extensions contemplated are intended for the development of industry, in particular the export industry, and of agriculture. On the other hand, consent has usually not been given for loans the proceeds of which were intended to serve purely local interests. In view of the above mentioned considerations, the supply of electric power, gas or water was usually approved. Nor was the rule followed

Employment
of the loan
proceeds
for pro-
ductive
purposes

that only large industrial centres or places with large individual industrial undertakings should contract foreign loans. On the contrary small communes which are the centres of important home industries have been given permission to borrow abroad. It follows that the loan schemes of other and larger towns had to be rejected where the sole object in obtaining foreign money was to produce higher revenues by improving the municipal undertakings. It must be admitted that it is difficult to distinguish between an improvement in municipal concerns which is of benefit to the whole country and an improvement which is of benefit to the commune only. The Advisory Office has endeavoured to settle the difficulty fairly by putting detailed questions to the municipal representatives, by carefully investigating the data submitted and by hearing technical experts.

Details of
utilisation

The Advisory Office has had in individual cases to deal with loan schemes, the proceeds of which were to serve for taking over existing premises, the construction of canals, harbours and roads, the construction of bridges, the opening up of industrial territory, the laying of narrow gauge railways and tramways, the development of the car parks of transport undertakings, the acquisition of car depots, the extension of hospitals, improvements to treatment appliances, the installation of central heating plant, the construction or extension of slaughter houses and markets, the acquisition

of cattle markets and fish markets, and the provision of public baths and dwelling-houses.

Of these schemes the Advisory Office rejected inter alia plans for dwelling houses as not being productive in the sense of the Regulations. With due recognition for the urgent need for house building, the Office felt unable to recognise that the necessary funds should be procured by foreign borrowing, but thought that recourse should be had to the home market. Exceptions are possible, such as for example where the construction of dwelling-houses for the workmen of an industrial concern is an absolute necessity.

The provision of central heating plant and public baths with the help of foreign money could likewise not be approved.

With certain exceptions where special importance to the nation as a whole could be proved, schemes were rejected for the opening up of industrial territory. One of the reasons for refusal was that no profits were to be expected, at any rate until later.

The Advisory Office has made it a practice to refuse consent to the taking over of existing premises by means of foreign money, on the grounds that from the point of view of the nation as a whole the actual ownership of the premises is immaterial.

In regard to the transport schemes the Advisory Office was at the outset prepared to admit that these were at least indirectly productive, in view of the fact that with the housing shortage in the big cities good transport facilities might be of use to industry. For this reason it gave its consent, in the case of the first loan schemes submitted to it for approval, to the utilisation of foreign money for the development of tramways. Upon reflection however that in this way the demand on the foreign capital market would be very heavily augmented - owing to the large amount involved as a result of the inadequacy of the communal transport system in many cities - the Office very soon altered its practice in the matter. Nevertheless even subsequently it did not reject every transport scheme. Even until quite recently it has admitted exceptions in special cases where the interests at stake were particularly great, and more especially where it could be definitely proved that the means of transport to be instituted were essential for transit between large factories and the homes of the workers.

In the case of harbour schemes a distinction was made between those for maritime traffic and those for inland navigation. The Advisory Office was prepared to give full approval to installations intended for maritime traffic (for which in particular Hamburg and Bremen borrowed foreign money) on the assumption that our trade balance and the

balance of payments would thus be served. On the other hand reserve was displayed where the harbour schemes were for inland shipping. In almost all cases the schemes were for Rhine harbours; together they would have meant so great an extension in the harbour space on the Rhine that there was bound to be doubt as to their economic necessity. The Advisory Office, while not considering it desirable to reject in principle all schemes for inland harbours, was nevertheless of opinion that the investment of foreign money should be restricted to harbour constructions in towns which in the first place are already ports and in the second place can prove the absolute necessity and urgency of the improvements or extensions proposed.

Where the Office has recommended other schemes whose productivity in the sense of the Regulations or whose urgency might seem doubtful, special reasons were present. Among these may be mentioned the various projects designed to avert epidemics - e.g. projects for drainage - very few of these projects obtained approval - schemes for the construction of slaughter houses and cattle markets and schemes for the laying of water pipes.

The Advisory Office in one case approved the utilisation of foreign money for the construction of roads, since the fact that the local industry was financially

interested in the scheme appeared to show that the improvements contemplated would directly serve to promote industrial interests.

In a limited number of cases which involved relatively unimportant sums allowance was made in dealing with the schemes of the towns of East Prussia, Silesia and the Palatinate for the circumstance that the fixing of the frontier without regard to economic interests, separation from the mother country, or the burden of foreign occupation had inflicted special losses upon the districts concerned.

In addition to the urgency of investments, the likelihood of profit has always been carefully considered and in principle approval has been refused for schemes in the case of which it seemed likely that instalments for depreciation or amortisation would have to be met from public funds.

3. Even however where the constructions planned could be shown to be productive, profitable and immediately urgent, the need for borrowing on the foreign capital market is not necessarily at once admissible. It is necessary as a matter of course to show - and this is a condition not specially emphasised in the Regulations - that the applicant has no funds which are already available or could be released or procured in some other way in order entirely or temporarily

Special
treatment
of relief
schemes

Likelihood
of profit
from the
invest-
ments to
be made

Rejection
of foreign
loans
where other
funds are
available

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to avoid the necessity for foreign borrowing.

The Advisory Office has several times had occasion to enunciate this principle in dealing with the communes - and that with regard to past action no less than present action on the part of the latter - since a number of towns have used surplus funds or money borrowed in Germany for less urgent and valuable purposes than those contemplated for the foreign money. On these grounds the Advisory Office has made its approval of foreign borrowing conditional on the circumstance that at the time of application or during the period of execution of the schemes to be financed with foreign money there were no funds at the disposal of the borrowing commune which might be used for less urgent purposes. It has further examined whether in the recent past applicants for loans have carried out schemes which might have been postponed in favour of those which it was proposed to execute with the help of foreign money. It has required a statement to this effect from the Governments of the Federal States and in addition in some cases demanded to see the draft budget and estimates of the communes and associations of communes.

4. Further, the Advisory Office has displayed reserve in cases where it has had to consider the financing of the completion of schemes already carried out in whole or in part. This applies more particularly to cases in which communes,

Financing
of schemes
already
carried
out in
whole or
in part

having procured short term money from savings banks or communal banking institutions, wish to repay the loan with foreign money.

The following were the reasons for the reserve displayed by the Advisory Office. In the first place the repayment of the short term credit did not seem urgent enough to prevent waiting until it was possible to obtain long term money in Germany. A further point was that, if in consideration of the necessity for covering a short term loan the Advisory Office gave its consent to schemes which it would otherwise not approve, the Bank might lend to another commune the money thus repaid; in which case the Advisory Office might within a short interval be again forced to a decision against its better judgment.

In the case of schemes which were already carried out in whole or in part the Advisory Office was inclined as a general rule to approve no foreign loans. In practice however it was unable always to apply this strict rule especially in the case of schemes which were financed with the help of bill credits or with assistance from regular budget funds absolutely required at a later date for other purposes. In particular the Office was bound to admit that it was in keeping with a sound financial policy for the States to advance available funds of the ordinary budget for undertakings under the extraordinary budget until the most

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favourable time for contracting a loan.

5. Under present circumstances the Advisory Office sees a peculiar danger in the attempt often revealed to include in a loan all the sums required for the complete execution of a scheme, although this may take years. It is of course understandable that the responsible authorities are unwilling to begin the construction of premises etc. until the full amount of the funds required is assured. In the general interest however it seems necessary to cover only the most urgent requirements with foreign money, in order to prevent heavy indebtedness on the part of Germany. There is also the fact that foreign moneys which will probably not be required until a later date may produce a liquidity of the money market which does not rest on normal economic processes and may give the illusion of a capital wealth which does not actually exist, with all the disadvantages attendant upon such exaggeration. Finally, it must be remembered that the service of interest on borrowed reserves may meet with difficulties. The Advisory Office does not in general support calls on the foreign market for a period longer than the next building season, although it is aware that under certain circumstances there may later be hindrances in the way of the completion of work taken in hand.

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It is the duty of the Governments of the Federal States to see that the proceeds of loans really go to the purposes for which they were intended. In the few cases, in which information has reached the Office that its opinion has not been observed or that attempts have been made to evade its authority, it has immediately drawn the attention of the Governments to the matter.

During the one and three quarter years of its existence criticism has frequently been levelled at the activities of the Advisory Office. While those who described its work as beneficial and approved even the details of its conduct have never been lacking, unfavourable judgments have been much more numerous; some have taken the line that the Advisory Office should have been much more restrictive than was the case, and others the opposite view that the Office has gone too far in its disapproval of loan schemes and has not taken the justifiable demands more particularly of the communes sufficiently into account. Criticism was keenest in connection with the so-called "Sammelanleihen" or joint loans of groups of communes borrowing in combination, which the Advisory Office had to consider. Seven joint loans were submitted to the Advisory Office, one each from the communes

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of Wurtemberg, Baden, Hesse, and Thuringia in 1925, and in the first half of 1926 the loan of the Deutscher Sparkassen und Giroverband, in which communes, circles (Kreise) and communal utility associations in almost all German States wished to take part and which finally covered the loan of the Thuringian towns as well as the loans of the towns, communes and circles of the Rhineland and Westphalia. In this way loan schemes were submitted to the Advisory Office of altogether more than 600 communes, including small and insignificant communes, which in some cases demanded sums quite out of proportion to their population. The Advisory Office was forced to cut down the amounts very strictly although in spite of this very considerable loans went through.

The Advisory Office admits that in spite of every restriction the total of foreign loans has become very considerable. It must not however be forgotten - and this should be borne in mind by those who look on the work of the Advisory Office as a hindrance - that the very existence of an Office examining the necessity and desirability of loans has increased the inclination of foreign countries to lend to the German communes and States. It must be remembered that foreign lenders have attached great importance to the opinion given on the lines of the Regulations of the Advisory Office and that in this way it has been easier for the towns

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to borrow abroad. Against its will the Advisory Office has encouraged and promoted the readiness of the foreign capital market to take up German loans, and it is impossible to tell what influence any cessation of the work of the Office might have on the inclination of foreign countries to produce money.

Two factors of importance for the policy to be followed in the matter of foreign loans have in the meantime come to the fore viz. the re-opening of the home capital market and the Government programme for the provision of work. In the course of 1926 it was possible to place in Germany a relatively large sum in loans of the States and cities. It must however be remembered that the money requirements of the public authorities are still large and probably exceed the capacity of the home market, so that the regulating influence of the Advisory Office is still needed. We cannot yet permanently renounce the influx of foreign capital, but under all circumstances we must prevent the accumulation in return of a hasty and disproportionate indebtedness to foreign countries.

Annex I.

DECREE OF NOVEMBER 1 1924 ON THE CONTRACTING
OF FOREIGN LOANS BY THE FEDERAL STATES,
COMMUNES AND ASSOCIATIONS OF COMMUNES.

(Reichsgesetzblatt Part I, page 726).

The following is hereby decreed in virtue of
Article 48, Paragraph 2, of the Constitution of the German
Reich:

§ 1

In order legally to contract credits abroad or
legally to issue loans abroad the Federal States, Communes
and associations of communes require the consent of the
Finance Minister of the Reich.

The same is required for the legal assumption of
guarantees or assigning of security by the Federal States,
communes or associations of communes.

§ 2

The Finance Minister of the Reich may only refuse
his consent with the approval of the Reichsrat.

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§ 3

With the approval of the Reichsrat the Finance Minister of the Reich may issue provisions in execution of the present Decree.

§ 4

The present Decree will come into force on the date of its promulgation. It will cease to apply on January 31 1925.

Annex II.

DECREE ON THE CONTRACTING OF FOREIGN LOANS
BY COMMUNES AND ASSOCIATIONS OF COMMUNES
ISSUED BY THE PRESIDENT OF THE REICH ON
JANUARY 29 1925.

(Reichsgesetzblatt Part I, page 7).

In virtue of Article 48 paragraph 2 of the Constitution of the German Reich I hereby decree as follows:

§ 1

In order legally to contract credits abroad or legally to issue loans abroad the communes and associations

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of communes require the consent of the Finance Minister of the Reich, in so far as under the provisions of the legislation of the Federal States the contracting of credits or the issue of loans is not already subject to approval by supervising authorities.

§ 2

The Finance Minister of the Reich may transfer his right of consent under § 1 above to the supreme authority in the Federal State.

§ 3

With the approval of the Reichsrat the Finance Minister of the Reich may issue provisions in execution of the present Decree.

§ 4

The present Decree will come into force on February 1 1925. It will cease to apply on February 28 1925.

Annex III.

LAW OF MARCH 21 1925 ON THE CONTRACTING OF FOREIGN
LOANS BY THE COMMUNES AND ASSOCIATIONS OF COMMUNES.

(Reichsgesetzblatt Part I, page 27).

The Reichstag has passed the following law which is hereby promulgated with the consent of the Reichsrat, the requirements for legislation in amendment of the Constitution being found to be duly fulfilled:

§ 1

In order directly or indirectly to contract foreign credits or directly or indirectly to issue loans abroad, and in order to assume guarantees or assign security for such credits or loans, the communes and associations of communes require the consent of the Finance Minister of the Reich, in so far as under the provisions of the legislation of the Federal States the contracting of credits or the issue of loans and the assumption of guarantees or the assigning of security for such credits and loans is not already subject to approval by supervising authorities.

The provisions for associations of communes within the meaning of paragraph 1 above also apply to communal Giro associations including their banking institutions in so far as they contract foreign credits or issue loans abroad which

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are to be passed on to the Federal States, communes or associations of communes.

§ 2

The Finance Minister of the Reich may transfer his right of consent under § 1 above to the supreme authority of the Federal State.

§ 3

With the approval of the Reichsrat the Finance Minister of the Reich may issue executory provisions.

§ 4

The present Law will come into force on the day following its promulgation.

It will apply to all agreements of the kind described in § 1 above concluded after February 1 1925.

The Government of the Reich is empowered to abrogate this law with the consent of the Reichstag.

Annex IV.

REGULATIONS FOR THE CONTRACTING OF FOREIGN LOANS
BY THE STATES, COMMUNES AND ASSOCIATIONS OF COMMUNES.

A.

The Federal States agree that, in order to maintain the stability of the currency and on general political grounds,

the contracting of foreign loans by public bodies should be strictly restricted. The States therefore mutually undertake, when contracting such foreign loans as are urgently required, to observe the following regulations or to see that they are observed. These regulations shall apply to any foreign loans which are directly contracted by States, Communes or associations of communes, or indirectly on their behalf by public or private banking institutions, or are obtained in any other way. In so far as the foreign loans are to be given to States, Communes or associations of communes, they shall apply in particular to the foreign loans of communal Giro clearing associations, communal banking establishments or other communal credit institutions, whose function it is to satisfy communal credit requirements or to administer mortgage loans. Similarly they shall apply to any guarantee or security for foreign loans assigned for the benefit of third parties by the States, Communes or associations of communes.

B.

The contracting of foreign loans which conform with the following conditions (B III paragraphs 2 and 3 do not apply to short dated loans of the States under B I, 2) shall be considered as relatively unobjectionable and therefore not subject to the procedure indicated under C:

I. Form of loan.

1. Long dated loans, that is to say, loans which are contracted for at least ten years, but may be called in by the debtor after not more than five years;
2. Short dated foreign loans contracted by the States for not more than 1 year, and solely for the provisional swelling of working funds (Betriebsmittel), provided the States in a formal declaration to the Advisory Office (Beratungsstelle) - see under D - guarantee that repayment will be made without fail on maturity and that there will be no question of conversion into a long dated loan. The nominal amount, the conditions and the creditor's name shall be notified to the Advisory Office not later than eight days after the loan has been contracted. If from the notifications the Advisory Office finds that the frequency of the dates of payment, the accumulation of the amounts contracted or any other circumstance is likely seriously to endanger the currency, it is entitled upon notifying the States to apply temporarily, but not for longer than three months, the procedure provided for under C to the above short dated foreign loans, notwithstanding anything hereinabove provided.

II. Maximum Charge.

The annual maximum charge to be fixed by the Advisory Office in accordance with D, paragraph 2, calculated on the basis of the net proceeds after allowing for discount upon issue and having regard to the sinking fund conditions, commissions to intermediary parties and any other expenditure, shall not be exceeded.

III. Utilisation of the foreign loans.

Any foreign loans contracted by the State, Communes or associations of communes must be used for the contracting party's own purposes, or for those of one of the public bodies indicated under A. In particular they shall not be passed on to physical persons or bodies corporate under private law.

The foreign loans must be used for directly productive ends, that is to say only for such profit-earning investments as by the direct production of values guarantee out of their own income the interest and sinking fund payments on the capital invested, without having recourse to the general income of the public body. It is important that the investments, either by increasing exports or by restricting imports or in some other way, should directly or indirectly serve to promote the economic interests of the Reich as a

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whole; local interests in themselves are not sufficient justification.

The investments must be necessary in the sense that the projected expenditure cannot be postponed until such time as German capital is available for the purpose.

IV. Guaranteeing of the foreign loans.

The conditions shall not provide for specific pledges of any kind, nor shall they involve any other businesses, such as for example the sale of products of Government enterprises.

C.

Before contracting the foreign loans which come under A, but which do not conform with the conditions under B, as well as before offering guarantees for security for foreign loans, the Government of the State concerned shall, on its own behalf or on behalf of its Communes or associations of communes, Giro clearing houses and other credit institutions indicated under A, consult an Advisory Office, which shall examine whether the loan in question is undesirable for the reasons explained under A, or for the purposes to which it is to be put. When examining the purpose of the loan the Advisory Office shall in principle observe the

regulations laid down in B, III. When examining the question of urgency, it shall bear in mind whether the total amount of foreign loans approved or the number of applications submitted has reached a figure which, in the interests of the currency or of the loan terms which it is desirable to obtain, should not in the meantime be exceeded. The States are entitled to make verbal representations to the Advisory Office in regard to the proposed loan. The Advisory Office shall express its opinion promptly and shall notify the Finance Ministry of the Reich and the Government of the State concerned accordingly.

If a State does not agree with such opinion, an effort shall first be made to come to an agreement with the Advisory Office, which shall reconsider the loan scheme in another meeting, which shall if possible be attended by a special expert (without the right to vote). If no agreement can be reached, the State, before coming to a final decision regarding the contracting of the loan, must consult a Committee, whose members shall be appointed by the Governments of the States and on which the several States shall be represented by the number of votes corresponding to their representation in the Reichsrat. The simple majority vote of this Committee shall be decisive. The Governments of the States shall themselves decide whether and how far they wish

to conform with the opinion of the Committee. But at the same time the States agree that their own interest in the application of the principle set forth under A paragraph 1 makes it desirable to adhere to the opinion of the Committee.

D.

The Advisory Office, which shall be a confidential committee of the States, shall consist of experts. It shall be composed as follows:

1. an expert to be appointed by the Finance Ministry of the Reich who shall act as chairman,
2. an expert to be appointed by the Ministry of the Reich for Economic Affairs,
3. an expert to be appointed by the Reichsbank-Direktorium:
as experts appointed by the States:
 4. Dr. Schroeder, President of the Preussische Staatsbank,
 5. Arnold, President of the Bayerische Staatsbank,
 6. from time to time a Government representative of the State applying for an expression of opinion.

Deputies may be appointed for the experts indicated under 1-3. In the event of the experts named under 4 and 5 being prevented from taking part, deputies shall be appointed by the Advisory Office. The Advisory Office shall draw up

standing orders which shall be communicated to the Reichsrat. The management shall be in the hands of the Finance Ministry of the Reich.

To keep pace with developments, the Advisory Office shall constantly examine the conditions indicated under B, consider any objection to their application which may have arisen, and, if necessary, propose amendments to the States. The maximum rates for the charges in respect of the loan (B II) shall be independently fixed by the permanent members of the Advisory Office according to circumstances. In addition it is one of the functions of the Advisory Office to watch the foreign money markets and, where possible, to supply information, for example regarding favourable opportunities and the reliability of persons acting as intermediaries for the negotiation of loans. The States are under obligation to keep the Advisory Office informed as to their experiences and to communicate to it the nominal amount, the conditions, the object and the name of the creditor in the case of any foreign loans contracted by them or by their public bodies, Giro clearing houses or other credit institutions indicated under A, in so far as these do not otherwise require to be notified to the Advisory Office. The Advisory Office shall give the States the benefit of its experiences.

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E.

The States shall see that the above regulations are observed by their communes, associations of communes, Giro clearing houses and other credit institutions indicated under A.

F.

The above agreement shall be valid until June 30 1925, and is automatically renewed as from that date for periods of three months, unless notice of withdrawal is given by one of the States four weeks before the expiration of such periods.

Annex V.

FINAL PROTOCOL.

1. At the meeting held in the Finance Ministry of the Reich on December 23, 1924, the authorised representatives of the Federal States agreed to observe the Regulations when foreign loans are contracted which are intended for the Federal States, communes or associations of communes.

2. The representatives of the States refused to agree to the application of the Regulations for the contracting of foreign loans to the State banks of the various Federal

States. On the other hand it was understood that the State banks may not contract unlimited foreign loans, that is to say, without regard to their endowment capital, and that the Federal States may not use their State banks in order to evade the Regulations.

3. The representatives of the States declared that the States will comply with decisions of the Committee of the Federal States mentioned under C, paragraph 2 of the Regulations, except in cases of absolute urgency.

4. Should the decisions of the Committee of the Federal States not be adequately observed, the Government of the Reich proposes to make the intervention of the Committee decisive. The representatives of all the Federal States, with the exception of Bavaria and Wurtemberg, declared that in this they support the Government of the Reich.

5. The representative of the Reich declared that, in the event of recourse to foreign borrowing, the Reich would proceed in accordance with the principles laid down in the above Regulations.

ANNEX VI (1)

I. COMMUNAL LOANS

	<u>Applications</u>	<u>Recommendations</u>	<u>Issues</u>
1. Wurtemberg towns	\$ 10 000 000	\$ 8 400 000	\$ 8 400 000
2. Durlach	\$ 270 000	\$ 81 000	included in the loan of the Baden Girozentrale under 10
3. Kommunale Landesbank Darmstadt	£ 2 000 000	\$ 4 000 000	\$ 3 600 000
4. Heidelberg	\$ 1 500 000	\$ 1 500 000	\$ 1 500 000
5. Lindau	Swiss frs. 1 500 000	GM. 1 200 000	GM. 1 200 000
6. Berlin	\$ 15 000 000	\$ 15 000 000	\$ 15 000 000
7. Cologne	\$ 15 000 000	\$ 10 000 000	\$ 10 000 000
8. Munich	\$ 10 000 000	\$ 8 760 000	\$ 8 700 000
9. Dusseldorf	\$ 6 000 000	\$ 1 775 000	\$ 1 750 000
10. Baden Girozentrale	\$ 7 500 000	\$ 4 300 000	\$ 4 500 000
11. Frankfort-on-Main	\$ 8 000 000	\$ 4 000 000	\$ 4 000 000
12. Duisburg	\$ 4 300 000	\$ 3 000 000	\$ 3 000 000
13. Dresden	\$ 15 000 000	\$ 5 000 000	\$ 5 000 000
14. Association of Thuringian towns	}	Originally submitted as an independent loan, but subsequently merged into the loan of the German Giro Association (No. 21)	
15. Königsberg in Prussia			
16. Community of German mortgage banks	GM. 15 130 000	GM. 10 800 000	GM. 10 800 000
17. Various towns in the Palatinate	\$ 5 000 000	\$ 3 800 000	\$ 3 800 000

(1) The loans are shown in the order in which they were approved.

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18. Leipzig		\$ 6 000 000	\$ 5 000 000	\$ 5 000 000
19. Nuremberg	}	Originally submitted as an independent loan, but subsequently merged into the loan of the German Giro Association (No. 21)		
20. Kissingen				
21. Association of German Savings and Giro banks		\$ 63 760 500	\$ 23 000 000	\$ 23 000 000
22. Landesbank der Rheinprovinz	Dutch guilders	38 000 000	D.G. 12 300 000	D.G. 12 300 000
23. Chemnitz	RM.	6 780 000	-	-
24. Cloppenburg	Dutch guilders	1 500 000	D.G. 1 000 000	D.G. 1 000 000
25. Province of Westphalia		£ 2 848 300	£ 835 000	£ 835 000
Total in RM.		891 178 420	461 365 200	459 828 000

II. STATE LOANS

1. Bremen		\$ 15 000 000	\$ 15 000 000	\$ 15 000 000
2. Bavaria		\$ 15 000 000	\$ 15 000 000	\$ 15 000 000
3. Oldenburg		\$ 6 000 000	\$ 3 000 000	\$ 3 000 000
4. Anhalt		\$ 4 000 000	\$ 2 000 000	\$ 2 000 000
5. Baden	Swiss frs.	56 800 000	S.F. 40 000 000	S.F. 40 000 000
6. Hamburg		\$ 5 000 000	\$ 5 000 000	\$ 5 000 000
7. Bavaria		\$ 10 000 000	\$ 10 000 000	\$ 10 000 000
8. Prussia		\$ 20 000 000	\$ 20 000 000	\$ 20 000 000
9. Hamburg	(\$ 12 500 000	\$ 10 000 000	\$ 10 000 000
	(£ 2 500 000	£ 2 000 000	£ 2 000 000
Total in RM.		464 508 000	409 200 000	409 200 000.

III. AGRICULTURAL LOANS

	<u>Applications</u>	<u>Recommendations</u>	<u>Issues</u>
1. Bavarian agricultural cooperative societies with the guarantee of the Bavarian Government	GM. 10 000 000	GM. 10 000 000	GM. 10 000 000
2. Rentenbank-Kreditanstalt	\$ 25 000 000	\$ 25 000 000	\$ 25 000 000
Total in RM.	115 000 000	115 000 000	115 000 000

IV. LOANS FOR INDUSTRIAL UNDERTAKINGS

1. Sächsische Werke	\$ 15 000 000	\$ 15 000 000	\$ 15 000 000
2. Rhein-Main-Donau A.G.	\$ 6 000 000	\$ 6 000 000	\$ 6 000 000
3. Sächsische Landespfandbriefanstalt	\$ 10 000 000	\$ 5 000 000	\$ 5 000 000 (1st tranche)
4. Bezirksverband Oberschwäbischer Elektrizitätswerke	\$ 5 000 000	\$ 4 000 000	\$ 4 000 000
5. Berliner Elektrizitäts A.G.	Sw. frs. 30 000 000	Sw. frs. 30 000 000	Sw. frs. 30 000 000
6. Sächsische Werke	\$ 15 000 000	\$ 15 000 000	\$ 15 000 000
Total in RM.	238 500 000	213 300 000	213 300 000

Translation 4040 (including 3843 - Annex IV -) from the German:
translated BWS: checked RB and NL.

EFD

The Dawes Plan in Operation

"We recommend that a limit of five milliards be placed upon all funds accumulating in the hands of the reparation creditors in Germany. If this limit is reached, the contributions from the budget are to be reduced below the standards set out in our plan, so that they are not in excess of the withdrawals from the account and the accumulation is not further increased. In this contingency, the payments by Germany out of the Budget and the transport tax would be reduced until such time as the transfers to the Allies can be increased and the accumulation be reduced below the limit named. We do not deny that this part of our proposal will present difficulties of a novel character which can only be solved by experience."

(Dawes Report, Part I, Section XIII)

The present wave of speculation as to the ultimate success or failure of the Dawes Plan largely centers about these words in the report of the Committee of Experts. The optimists and pessimists have kept the discussion alive for the past year or more in European centers, and recently our own channels of public opinion have taken up the subject from a somewhat alarmist viewpoint. Holders of dollar bonds issued by German states, municipalities and corporations have begun to wonder what it is all about, and, in some instances, have preferred to liquidate their holdings rather than investigate the problem. As a result, current market prices of German securities show a rather general decline as compared with prices ruling a month ago, and will unquestionably go to lower levels unless the already large body of holders familiarize themselves with the facts.

During the year beginning September first, 1928, the German Government will be called upon to make the first maximum annual payment under the sliding scale adopted in the Dawes Plan. This payment amounts to two and one-half billion reichsmarks (\$595,000,000) plus whatever sum may be added by the Index of Prosperity. The government satisfies its obligation by depositing this sum, in reichsmarks, in the Bank of Issue in Berlin to the account of the Agent for Reparations. How this sum is to be withdrawn from Germany for division among the nations interested is left to the discretion of allied representatives who form component parts of the elaborate machinery set up for that purpose, with the reservation, however, that the sum must be withdrawn without endangering the prosperity of Germany, and the stability of the reichsmark. Should either or both of these requisite conditions be threatened, the machinery of the Plan allows the Transfer Committee to hold or reinvest reparation payments in Germany, and, should such accumulation reach a total of five billion reichsmarks, the Transfer Committee may reduce the annual payments derived from the budget and transport tax until the accumulation has been worked off by exchange transfers abroad.

"The success of our proposals to attain financial stabilisation depends essentially upon the return of confidence. Without this the return of German capital invested abroad, the attraction of foreign capital for the purposes mentioned in the scheme and of foreign credits for the current conduct of business, and even the proper collection of taxes, will alike be impossible."

(Dawes Report, Part I, Section VIII)

The architects of the Dawes Plan were set an unprecedented task in modern economic history. They were asked to restore to a devastated continent complete and immediate confidence. The success of their work was almost immediate, and the general prosperity of Europe today is a signal tribute to the personal confidence in which the members of the Experts Committee were held, and the

wisdom and foresight of the Plan they evolved. It is not within the bounds of common sense, however, to expect of the Plan more than it was intended or permitted to give. The Committee of Experts was not instructed to decide what total sum of reparations Germany must pay, what technical methods the Transfer Committee should adopt to obtain the necessary exchange, or what volume of private German borrowing abroad could be permitted without seriously complicating the transfer of reparations. These questions were all beyond their province, and it would seem unfortunate to prematurely condemn the structure they erected, more especially as the machinery they set up is sufficiently elastic to obtain complete and final success, given the requisite amount of good faith on the part of all interested parties. The duty of the Committee was to determine the maximum annual sum of reparations which the Allied Powers could take from Germany without endangering her financial and economic prosperity. They decided the sum was a maximum of two and a half billion reichsmarks, plus a prosperity increment, and that sum will be payable annually after the present fiscal year of the Plan.

It should be noted that the framers of the Plan fully realized that cash reparations could only be obtained from a prosperous and solvent nation. An essential part of their proposals was designed to restore to Germans confidence in themselves, and to strengthen the confidence of the world outside in Germany. German funds which had been surreptitiously carried over the border during the months of panic must be brought back, and sufficient assurance must be created to attract the investment of foreign capital in Germany by those who would expect to receive interest on their holdings at regular intervals and without the interference of any political sanctions. The response of foreign capital was wholehearted, and showed the spontaneous acceptance of the spirit of the Dawes Plan.

“Without undue optimism, it may be anticipated that Germany’s production will enable her to satisfy her own requirements and raise the amounts contemplated in this plan for reparation obligations. The restoration of her financial situation and of her currency, as well as the world’s return to a sound economic position, seem to us essential but adequate conditions for obtaining this result.”

(Dawes Plan, Part I, Section V)

While there have been occasional dissenting voices, the best opinion within Germany and abroad indicates that no serious difficulty will be experienced by the German Government in fulfilling its part of the Plan by making the necessary deposits in the Bank of Issue. Thanks to the Plan itself, the amazing industry of the German people, and the volume of American capital which has been made available to their needs, business prosperity has been restored in a much greater degree than the world anticipated. The Agent General for Reparations has reported that during the first three years of the life of the Plan all payments of reparations have been promptly made when due. Statistics indicate that the payment of interest and amortization on the five billion reichsmarks of Industrial Debentures has placed no perceptible burden on German industry, and the railways have earned substantially more than the amount needed to cover annual charges on the eleven billion reichsmarks of bonds created for reparations. The remainder of the annual payments under the Plan is derived from the controlled revenues under the budget and the railroad transportation tax. Controlled revenues last year produced two billion four hundred million reichsmarks, or a surplus of one billion, one hundred and fifty million reichsmarks over and above the amount earmarked for reparations in the standard year under the Plan. In fact the controlled revenues, alone, produced only one hundred million reichsmarks less than the maximum annual payment of two and a half billion called for in 1929 under the Plan. Certainly the calculations of the Dawes Committee as to what Germany can safely pay have to date been fully justified, and there would appear to be no cause for alarm as to the future, provided general budget expenditures are kept within reason.

"We estimate the amount which we think Germany can pay in gold marks by consideration of her budget possibilities; but we propose safeguards against such transfers of these mark payments into foreign exchange as would destroy stabilisation and thereby endanger future reparation."

(Dawes Report, Part I, Sect. VIII, d)

The situation with regard to the actual transfer of reparations out of Germany shows an equally satisfactory position for the first three years of the Plan. The Agent General has been able to transfer all amounts desired, either in the form of cash or goods, without calling for any emergency measures on the part of the German Government or the Transfer Committee, and without disturbing the normal exchange market position of Germany. The method of employment of reparation payments to June 30, 1927, is shown in the following table in million reichsmarks:

Year	Total	Payments in kind	Used in Germany (1)	Interest on payments made prior to maturity	Cash transfers to the creditor nations (2) and interest on Dawes Loan	Movements in the cash holdings of the Agent General for Reparations
1924	284	122	82	3	71	+ 6
1925	1,061	507	162	3	311	+78
1926	1,197	624	91	7	446	+29
1927, January 1 until June 30th	727	304	39	3	340	+41
Total	3,269	1,557	374	16	1,168	+154

(1) Costs of army of occupation and $\frac{3}{4}$ of costs for commissions.

(2) Including $\frac{1}{4}$ of costs for commissions.

Taken by itself, there should be no question as to the continuing ability of the Agent General to transfer the annual sum of reparations to the designated foreign recipients. This annual sum reduces itself to a daily requirement of only \$1,700,000 of exchange which is indeed a small amount for a country of the size and international importance of Germany. The problem, therefore, is one not appertaining to the transfer of reparations, but relating to the sound management of the German finances and economy. In this connection it is necessary to remove a general misunderstanding as to the powers and duties of the Agent General and the Transfer Committee. These officials are not appointed to manage and supervise the daily conduct of German Government finances and the German exchange market. They are charged with the duty of collecting, investing and transferring of reparations. The principal duty of the Transfer Committee is to advise when the annual payment under the Dawes Plan should be reduced on account of unmanageable accumulations in Germany. The Agent General has greater responsibility as observer and manager of reparations, and, by reason of his daily contact with the officials of the Government, is in a position to offer advice on budget policies and any matter which may affect the continuing soundness of the German fiscal position. His communication to the Government under date of October 20th was in this spirit, and warned the authorities against the growing expenditure and borrowing on the part of the Reich, the states and municipalities for non-productive purposes. Obviously loans to German industry which, by their nature, promote employment of labor, the production of goods, and the increase of exports, are sound and desirable. The granting of such credit to German industry in the form of American loans has been an important factor in the quick return of healthy business conditions and has materially lightened the burden of reparation payments during the first and most difficult years of recuperation. Mr. Gilbert's note is a timely warning to the Reich that it has a distinct obligation to check the issue of loans for any other purposes. The Government of the Reich has so far demonstrated its willingness to carry out the spirit of the Dawes Plan, and the proper control of the budgets of the Reich and its subdivisions is a matter which it can be expected to handle in a satisfactory manner.

"We repudiate, of course, the view that Germany's full domestic demands constitute a first charge on her resources and that what is available for her Treaty obligations is merely the surplus revenue that she may be willing to realise. But at the same time, if the prior obligation for reparation that is fixed for Germany to pay, together with an irreducible minimum for her own domestic expenditure, make up in a given year a sum beyond her taxable capacity, then budget instability at once ensues and currency stability is also probably involved. In that event, an adjustment of Treaty obligations of the year is obviously the only course possible."

(Dawes Plan, Part I, Sect. VIII)

Any argument at the present moment that reparations have priority in the exchange market over the interest on German loans placed abroad, or the opposite contention that private obligations enjoy priority, is beside the mark and confusing. It is difficult to conceive of a situation arising in which all available foreign exchange would be monopolized by German borrowers who were desirous of meeting interest payments on their foreign loans, with none left over to satisfy the interest of France and other powers in reparation payments. Nor is it possible to picture a Germany forced into general default in the payment of interest on private foreign obligations while the allied nations paid themselves in full out of the assets of the bankrupt nation. The first alternative would be an injustice to the creditor nations while the second would be lacking in common sense and against the best interests of all concerned. Any agitation, either in Germany or abroad, which has for its end an immediate revision of the Dawes Plan is unwise until it has been demonstrated that such revision is necessary. Up to the present time no evidence establishing that condition has been produced. An excellent caution was recently sounded by a German writer in a leading Berlin daily who said, "The real dangers which the Dawes Plan contains for Germany's future cannot be averted by exhorting Germans to insist on its revision. They can only be met by harmonizing financial and commercial policies and by facilitating in every way possible the smooth adjustment of the Plan to what the country can really pay."

Dillon, Read & Co.

November 23, 1927.

Confidential

THE AGENT GENERAL FOR REPARATION PAYMENTS

BERLIN, February 24, 1928.

FROM: The Agent General for Reparation Payments,
TO : The Secretary General, The Reparation Commission, Paris.

Sir:

I have the honour to transmit herewith, for the information of the Reparation Commission, a Memorandum of this date which I have prepared for the purpose of confirming the views which I expressed at our informal meeting on January 14, 1928.

I shall appreciate it if you will bring the enclosed Memorandum to the attention of the Reparation Commission in regular course.

Respectfully,

(signed) S. PARKER GILBERT

Agent General for Reparation Payments.

1 enc.

THE AGENT GENERAL FOR REPARATION PAYMENTS

BERLIN, February 24, 1928.

MEMORANDUM FOR THE REPARATION COMMISSION.

I am presenting the following observations to the Commission for the purpose of confirming the views which I expressed at our informal meeting of January 14, 1928, during the discussion of my Report of December 10, 1927, on the operation of the Experts' Plan through the third Annuity year.

1. The Conclusions to the Report are to be read as a whole, and not by lifting one sentence or another out of its context. Taken as a whole, they emphasize the fundamental conceptions of the Experts' Plan, not only by reference to the provisions of the Plan itself but also in the light of more than three years' experience with its actual execution.

2. The Conclusions describe the system of reparation payments and transfers established by the Plan, and in this connection develop still further the underlying thesis of my Memorandum of October 20, 1927, to the German Government. In substance, the Plan established a protected system, which aimed to safeguard the German exchange against the danger of instability through excessive reparation transfers and at the same time to secure the maximum possible transfers for the creditor Powers without involving them in any general control over Germany's affairs. The Plan

endeavoured, in other words, to put the problem of reparation to the test of practical experience, under a programme which, as the Experts said, "adjusts itself to realities". It is fundamental to this conception that the German Government should permit the Plan to have a fair test, and, while the test is in progress, that Germany herself should exercise prudence in the management of her affairs and not dissipate her resources and her credit through over-spending and over-borrowing by the public authorities. In these terms both the Memorandum and the Conclusions to the Report made it clear that the transfer protection which is given to Germany by the Plan involves reciprocal obligations on the part of the German Government, and itself presupposes that Germany on her part will do everything within her power to facilitate transfers on reparation account. This, to quote the words of the Conclusions, "remains the only basis on which it is possible to carry on the protected system of reparation transfers contemplated by the Plan".

3. At the same time it must be kept in mind that the transfer protection granted by the Plan itself made a fundamental qualification in Germany's reparation liabilities, by providing that transfers must not be made to the creditor Powers to such an extent as to interfere with the stability of the German exchange. The Plan, moreover, determined the amounts of the internal payments to be made from year to year by Germany, beginning with an Annuity of 1,000 millions of gold marks in the first year and rising gradually to an Annuity of 2,500 millions in the fifth or so-called standard year, which begins September 1, 1928, with provision for possible further increases, beginning with the year 1929-30, depending upon the Index of Prosperity. The Experts deliberately refrained, however, from making any

attempt to fix the amounts that could be transferred from year to year, believing, as they said, that "experience, and experience alone, can show what transfer into foreign currencies can in practice be made". The Experts' Plan, in other words, avoided any definitive settlement of this question, and left the amount of actual transfers to the creditor Powers to be determined year by year under the auspices of the Transfer Committee, in the light of practical experience. As the Conclusions have pointed out, it was, in fact, impossible, in the state of confusion and disorder which existed at the time, to reach any final decision as to the amount of Germany's reparation liabilities, without, as the Experts said, running the danger of fixing it at "so low a figure as to be quite unacceptable to her creditors and unwarrantedly favorable to Germany", or, on the other hand, of fixing it arbitrarily without reference to Germany's economic surplus, and leaving the discharge of the liability "to uncontrolled events without any possible regard to exchange difficulties", in such a way as to invite "future instability and disaster".

Under these conditions, entirely apart from the question of the competence of the Experts to re-examine the total of the reparation debt, the necessary basis was lacking for any consideration of the total of the reparation debt, or for any determination of the number of the successive Annuities to be paid by Germany in discharge of her reparation debt. Indeed, it was provided that even the Annuities to be paid internally by Germany under the Plan were to be transferred to the Creditor Powers only subject to the transfer clauses which the Experts introduced into the Plan for the protection of the German exchange.

4. It is necessary, in considering the operation of the Experts' Plan, to make allowances for the inherent weaknesses of any protected system. The Conclusions have pointed out that "the very existence of transfer protection, for example, tends to save the German public authorities from some of the consequences of their own actions, while, on the other hand, the uncertainty as to the total amount of the reparation liabilities inevitably tends everywhere in Germany to diminish the normal incentive to do the things and carry through the reforms that would clearly be in the country's own interests." Without multiplying examples, I may cite one such reform which is of the first importance, namely, the settlement of the financial relations between the Reich and the States and communes. This is a question which received special notice in the Experts' Report, and has been the subject of almost constant attention ever since its presentation. The need for reform has been emphasized in all of my published Reports, and in my letter of March 17, 1927, to the Finance Minister of the Reich, and is generally admitted in all informed circles within Germany. The probabilities are, however, that no final solution of the problem will be reached until there has been a definitive settlement of the reparation obligations of Germany, - partly because the Reich, which is primarily responsible for the reparation obligations, wants to know its definitive liabilities in this regard before making any definitive engagements with the States, and perhaps even more because of the lack of the natural incentive to introduce economies and effect budgetary reforms so long as the total of the reparation debt remains uncertain.

This last consideration has a broader influence, which touches the whole problem of the expenditures and borrowings of the public authorities

in Germany, not only of the Reich but of the States and communes. It is ordinarily characteristic of a debt, whether public or private, that the debtor should know what he has to pay, and the debtor normally has a corresponding incentive to limit his expenditure in such a way as to allow for the ultimate discharge of his obligations. Under present conditions, however, Germany lacks the normal incentive to economize. On the contrary, as was pointed out in my Memorandum of October 20, 1927, the tendency of recent years has been toward the growth of public expenditures and of public borrowings, both domestic and foreign. In the long run these tendencies if continued cannot fail to affect the foreign exchanges, with consequences for the transfer of reparation payments which cannot now be foreseen. Moreover, the borrowings of the German public authorities in foreign markets have already made heavy drafts on German credit abroad, and cannot continue indefinitely on such a scale without impairing the ability of foreign countries to absorb the reparation bonds when the time for selling them arrives. Still more broadly, the present status of Germany's reparation liabilities, since it leaves uncertain the extent and duration of the responsibilities which the various elements of the German economy must directly or indirectly assume, acts constantly as a disturbing influence in the process of German reconstruction.

Up to the present time these various difficulties, which may be said to be inherent in the present system, have interfered relatively little with the current operation of the Plan. But they have already shown themselves as powerful factors, and I feel sure that as time goes on, and the Annuities rise to the standard level, they will exert an ever-increasing practical influence.

I believe that in this sense the existing state of uncertainty as to the limits of Germany's reparation liabilities will tend, sooner or later, to interfere not merely with the capacity of the German economy to make reparation transfers but perhaps even with Germany's ability to make the internal payments called for by the Plan. In other words, there will surely come a time, and in the not too distant future, when the system of protection established by the Plan will be less productive of reparations for the creditor Powers themselves than a system which gives Germany a definite task to perform on her own responsibility, without foreign supervision and without transfer protection.

5. The Experts themselves recognized that the Plan was not a final solution of the reparation problem, and they expressed their views in so many words, in the final paragraph of Part I of the Report, as follows:

"We would point out finally that while our plan does not, as it could not properly, attempt a solution of the whole reparation problem, it foreshadows a settlement extending in its application for a sufficient time to restore confidence, and at the same time is so framed as to facilitate a final and comprehensive agreement as to all the problems of reparation and connected questions as soon as circumstances make this possible."

In effect, the Experts looked upon the protected system established by the Plan as a means to meet an urgent problem and to accomplish practical results. The Experts did not pretend that the Plan was an end in itself.

The alternative to the protected system, as pointed out in the Conclusions to my last Report, is "the final determination of Germany's liabilities, on an absolute basis that contemplates no measure of transfer protection. The Experts did not indicate when in their opinion such a settlement would become possible in fairness to the interests of all concerned. That would indeed have been beyond their power to foresee."

6. It is doubtless true, as I understand from the declaration made by the President of the Commission, that the total indebtedness of Germany on account of reparation was fixed by the Reparation Commission in 1921 at the figure of 132 milliards of gold marks. This is a legal fact, which still exists as such, notwithstanding the adoption of the Experts' Plan. But in practice it is qualified, as I have already pointed out in the preceding paragraphs, by the provisions of the Experts' Plan for determining the amounts of the Annuities to be paid each year within Germany, and more particularly by the transfer clauses of the Plan.

The Commission will recognize, moreover, that both the Agent General for Reparation Payments and the Transfer Committee are concerned only with the collection and transfer of the Annuities which Germany has agreed to pay under the terms of the Experts' Plan. The Agent General and the Transfer Committee have no responsibility under previous decisions which may have been taken by the Reparation Commission or by the Allied Governments as to the payments required of Germany, and are concerned in any such decisions only if and to the extent that they affect the collection and transfer of the Annuities contemplated by the Plan, or the settlement of practical questions arising from time to time in the course of operations under the Plan. I have on this ground, in the Conclusions to the last Report, drawn attention to the ultimate necessity of a final determination of Germany's obligations, for I feel sure, in the light of our practical experience up to this time, that the present uncertainty as to the final terms of the reparation liabilities will operate as an increasingly powerful factor of uncertainty in the execution of the Plan.

The Commission will, of course, appreciate that any renewed insistence on a total reparation indebtedness of 132 milliard gold marks would have the most serious practical consequences, and that it would, in fact, be inconsistent with the successful operation of the Experts' Plan. This must be clear from the fact that even with full transfers the standard Annuity under the Plan falls short of the amount required to meet interest at 5 per cent and 1 per cent amortization on the old 50 milliards of A and B bonds, and would provide nothing at all for the service of the remaining 82 milliards. It would become increasingly difficult for Germany to discharge her obligations under the Plan, and it would soon destroy her incentive to do so, if the only result of full performance were a large annual increase in her total indebtedness. From the standpoint of Germany's credit, moreover, the assertion of a reparation liability of 132 milliards of gold marks would practically put an end to her capacity to borrow abroad, since foreign capital would naturally be unwilling to take the risks of coming into Germany under the threat of such a stupendous charge.

7. It is not disputed, as a legal proposition, that it will require the unanimous consent of the interested Governments to make any change in the figure of 132 milliard gold marks which was fixed in 1921 as the total of the reparation debt of Germany. It is equally clear that it will require the unanimous consent of the interested Governments to modify the system established by the Experts' Plan, and that for this the consent of Germany is also necessary. The Experts' Plan, as put into effect by the London Agreements, has the weight and standing of a Treaty as between the signatory Governments, and it will need a document of equal force and effect to change it. The agreement of Germany will be needed, of course, for any changes in

the system of transfer protection established by the Plan.

8. It is clear, as a corollary to the foregoing proposition, that the Experts' Plan continues in operation automatically, within its own provisions and limitations, unless and until something else is substituted for it by international agreement. It remains for experience to show to what extent full transfers under it will be possible, and it may not yield as much in effective transfers to the creditor Powers if the final determination of Germany's liabilities is delayed too long. But the Plan itself continues, according to its terms, within the framework and with the machinery that has been provided, until the time when the final solution which it foreshadows has been reached by an international agreement of equal force.

The Conclusions to my last Report have indicated that "we are still in the testing period, and further experience is needed before it will be possible to form the necessary judgments". But in due time the question is bound to present itself whether it will not be more productive from the standpoint of the reparation creditors, and better for the interests of all concerned, to give Germany a definite task to perform on her own responsibility. This is a question which will have to be considered at the proper time on its own merits, and by all the Governments primarily interested in reparations.

9. It would be a mistake, I believe, to suppose that the final determination of Germany's reparation liabilities, when it comes, would involve a sudden abandonment of the Experts' Plan, or of the machinery which it has established. The final settlement of the problem, it seems to me, should be regarded rather as the completion of the Plan, and it would most naturally be worked out within the framework of the Plan itself, as gradually and

with as little disturbance as possible. I believe the ideal to be kept in mind would be the orderly liquidation of the Plan over a period of years with due regard to the interests of all concerned.

10. In the final sentence of the Conclusions to the last Report, I expressed the view that "neither the reparation problem, nor the other problems depending upon it, will be finally solved until Germany has been given a definite task to perform on her own responsibility, without foreign supervision and without transfer protection". It may be of interest to the Commission if I refer to some of the "problems depending upon it" which seem to me of the greatest importance from the standpoint of the Experts' Plan. I shall not attempt an exhaustive analysis, and I shall limit myself, of course, to problems which fall within the scope of the Plan.

First of all there is the question of the sale of the German Railway and Industrial bonds. I think it is clear that any final settlement of Germany's reparation liabilities must contemplate the commercialization of German reparation bonds, through their sale on the investment markets of the world. The mobilization of German reparation bonds would have the advantage, from the standpoint of the creditor Powers, of capitalizing their shares in future reparation Annuities, and would provide a fundamental security for the discharge of Germany's reparation obligations, since with the sale of bonds to investors her general credit would be involved. From a broader standpoint, the distribution of the German bonds on an investment basis among all the important markets of the world, in Europe and in America, would give one of the best possible guaranties of peace, and afford a useful means of consolidating the peaceful reconstruction of Europe.

Conversely, I think it is equally clear that there is no practical possibility of selling any important amount of the reparation bonds of the

German Railway Company or of the German Industrial Debentures until there has been a final determination of Germany's reparation liabilities. I could even go one step further and emphasize that there will be no substantial possibility of selling Railway or Industrial bonds on the investment markets until the public opinion of the world is satisfied not only that there has been a final settlement but that the settlement has been made on terms which are generally regarded as falling within Germany's probable capacity to pay and transfer. This is not a question of good or bad faith, or of politics, foreign or domestic, or of the policy of one Government or another toward the sale of these securities. It is simply a question of fact, and as such it will be recognized sooner or later as setting the limitations to policy. The fact is that investors the world over are not going to put their savings into reparation securities that may be issued by Germany until they are satisfied that Germany's reparation liabilities have been definitely fixed, and within the limits that offer a reasonable probability of payment. It will also be of vital importance from the standpoint of investors that the service of the reparation bonds which they are asked to buy should not be subject to interruption under the transfer clauses of the Plan. I have indicated in the Conclusions that any final settlement should provide for putting Germany on her own responsibility and for the withdrawal of the transfer protection, and this, I believe, may be taken to be a necessary condition of the mobilization of the Railway and Industrial bonds, as of any other reparation bonds that might be issued by Germany in pursuance of the settlement.

Another question of the first importance which hinges upon the final settlement of Germany's liabilities is the so-called question of

priorities in transfer, or more properly of the relation between Germany's reparation obligations and the loans and credits which may have been extended to her from abroad since the inception of the Experts' Plan. I have taken occasion in my Report of December 10, 1927, to point out some of the implications of this problem and to indicate the position of the Transfer Committee and the Agent General for Reparation Payments. This question, in my judgment, is inherent in the transfer protection given to Germany by the Plan, and it is at the same time inextricably bound up with the provisions for currency stability and for the reestablishment of the gold standard which constitute such a fundamental part of the Plan. The practical question of the relative rank of private capital and reparation debts has not arisen up to this time, since reparation payments and transfers have been made fully and regularly from the very beginning of the operation of the Plan. But the theoretical question has been the subject of increasingly active public discussion during the past year, and sooner or later it may prove to be a serious deterrent to the inflow of the additional foreign capital which is needed for the reconstruction of Germany. The question may sometime arise in an urgent way requiring emergency action, but personally I do not believe it can be solved in advance, nor do I believe that there is any satisfactory solution for it except a final determination of Germany's reparation liabilities which gives Germany a definite task to perform on her own responsibility, without foreign supervision and without transfer protection. When that has been done Germany will be in the same position as any other country owing foreign debts, and prospective investors will be able to make up their own minds in the usual way as to how far existing debts, in view of their nature or amount, make it wise to

extend additional loans or credits.

11. In the last paragraph of the Conclusions, I took occasion to quote the final paragraph of Part I of the Experts' Plan, in which the Experts described the Plan as providing "a settlement extending in its application for a sufficient time to restore confidence", and as being "so framed as to facilitate a final and comprehensive agreement as to all the problems of reparation and connected questions as soon as circumstances make this possible." The words "connected questions" are, of course, those of the First Committee of Experts appointed by the Reparation Commission, and I should not presume to say what meaning the Experts intended to give them.

For my part, I believe that the settlement of the reparation problem on its own merits is the fundamental condition of progress on other important problems which concern the reconstruction of Europe.

Respectfully,

(signed) S. PARKER GILBERT

Agent General for Reparation Payments.