

FEDERAL RESERVE BANK OF NEW YORK

Date 6/21/72

To Mr. Backlund

Of _____

From Cover Files

Please:

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|------------------------------------------------------------|--------------------------------------------------------------------|
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re attached | <input type="checkbox"/> As requested |
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my signature | <input type="checkbox"/> For your comments
and suggestions |
| | <input type="checkbox"/> Does attached meet
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Other remarks:

Havenstein - Strong
Cover et al
Reichsbank
files.
1921-23

Reichsbank - Direction

No. 9596 D

Berlin, S. W. 19,
November 9, 1921.

ATTENDED TO
DEC 14 1921

The experience which we have had in securing bills of exchange for the payment of indemnities in connection with the fulfillment of the peace treaty, makes it seem to us desirable to bring about a direct connection among the central note banks of those countries which are primarily interested in the easy handling of the payments. From this point of view we should consider it suitable if the note banks concerned could open current accounts for each other in their books. Accordingly we have, among other things, already entered into communication with the Bank of England in London for this purpose and received from it the promise that it will open accounts for us in its books. The preparations are under way, and we intend in the course of time to make such arrangements that the business of the Reichsbank to be liquidated in English pounds may be settled in the main through the Bank of England. In this connection it has also been agreed that the Bank of England, insofar as, according to its constitution, it is not in the position to grant interest on cash capital, will undertake to make interest-bearing investments of considerable sums with the best care for our interests.

We now permit ourselves to ask you whether you are disposed to enter into a relation of like or similar form with us. In our opinion, from the reciprocal direct connection valuable relief would gradually be afforded to the gold and exchange market, with generally useful results.

At this opportunity we should like to ask you a second question. It is our intention, provided a corresponding change in the bank law can be brought about, to deposit a considerable sum in gold (minted or in bullion) abroad - probably with the Bank of England, in order to use it as a basis for short-time loans in foreign currency, in case of need, in dollars. Would it be possible for your bank, on the basis of a gold deposit to your credit in reliable hands in a foreign note bank, to grant advances in dollars and, in that case, on what condition?

We should be grateful if our suggestion should meet with your approval, and we most respectfully look for a favorable reply.

Reichsbank - Direction

Havenstein Kauffmann

To the Federal Reserve Bank of New York, New York.

The President of the
Reichsbank - Direction

No. 9596 D

Berlin, S. W. 19
November 9, 1921.

Honored Governor:

I do myself the honor of sending you a letter from the Reichsbank
Direction to the Federal Reserve Bank of New York, with the following observation:

I took the opportunity a short time ago to call upon the Governor of
the Bank of England, Mr. Montagu Norman, in London, and to discuss thoroughly
with him economic-political questions, which affect the central note banks of all
countries to a great degree. As of primary importance the bringing about of a
close business connection among the note banks was discussed, and it gave me
particular satisfaction to find in the Governor a comprehending approval of my
suggestions. As I dare assume, according to what he said, that you too share the
views of the Governor of the Bank of England, which have not been unknown to you
since his visit in New York. I should like to yield to the agreeable hope that
the wishes expressed in the enclosed letter will also find approval and favor
with you. It seems to me entirely probable that a close connection of the note
banks of the United States, England and Germany might be the foundation for inter-
national cooperation of the note banks of all important countries.

With greatest respect, I am

Yours very sincerely,

Havenstein

To the Governor of the Federal Reserve Bank of New York,
Mr. Benjamin Strong, New York.

ATTENDED TO

DEC 14 1921

J. E. O.

Der Präsident
des
Reichsbank-Direktoriums.

Berlin SW. 19, den 9. November 1921.

Nr. 9596 D.

Sehr geehrter Herr Gouverneur!

Anbei beehre ich mich, Ihnen ein Schreiben des Reichsbank-Direktoriums an die Federal Reserve Bank of New York zu übersenden und dazu folgendes zu bemerken:

Ich habe vor kurzem Gelegenheit genommen, den Gouverneur der Bank of England, Mr. Montagu Norman, in London aufzusuchen und mit ihm eingehend wirtschaftspolitische Fragen, die die Zentralnotenbanken aller Länder in hohem Maße berühren, durchzusprechen. In erster Linie wurde auch die Herbeiführung einer engen geschäftlichen Verbindung zwischen den Notenbanken behandelt, und es gereichte mir zur besonderen Genugtuung, bei dem Herrn Gouverneur verständnisvolle Zustimmung zu meinen Anregungen zu finden. Da ich nach seinen Äußerungen annehmen darf, daß auch Sie die Ansichten des Herrn Gouverneurs der Bank of England, die Ihnen von seinem Besuche in New York her nicht unbekannt sind, teilen, möchte ich mich der angenehmen

An

Hoffnung

den Gouverneur der Federal Reserve Bank
of New York, Mr. Benjamin Strong,

New York.

ATTENDED TO

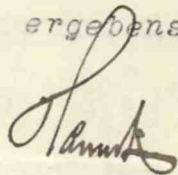
DEC 14 1921

J. E. O.

Hoffnung hingeben, daß die in dem beifolgenden Schreiben
ausgedrückten Wünsche auch bei Ihnen Anklang und Zustimmung
finden. Es erscheint mir durchaus wahrscheinlich, daß eine
enge Verbindung der Notenbanken der Vereinigten Staaten,
Englands und Deutschlands die Grundlage für ein internatio-
nales Zusammenarbeiten der Notenbanken aller bedeutenden
Länder werden könnte.

Mit vorzüglicher Hochachtung

ergebenst

A handwritten signature in dark ink, appearing to be 'H. H. H.' or similar, written in a cursive style.

The law concerning the autonomy of the Reichsbank according to the proposition of the Reichsbank has meanwhile, as I already have mentioned, passed the Cabinet and will, I expect, in short, also pass the Reichstag. It does entire work and will, I am sure, just as well satisfy you, as it does me. The Reichskanzlers leading activity of the Reichsbank is wholly removed from the management of the Reichsbank, and on his place the full autonomy of the Directorium of the Reichsbank is installed. This latter with all its members becomes independent from the Reichskanzler, every personal commanding- power and disciplinary authority being taken from him, and the verdict concerning the case of introducing a disciplinary inquiry, once in question according to the German officials-laws, is also transferred to the Reichsbank-Directorium. Also the suspension of an official or his pensioning, when at the age of 65 years, being generally admitted according to officials-law in Germany, is also removed concerning the Directorium of the Reichsbank, as it is the case with the members of the Reichsgericht. There only remains the formal appointment of the President and

and the members by the President of the Reich, but that can not be done away with and also does not lay in the interest of the Reichsbank. But also here the autonomy of the Reichsbank is observed. The appointment of a member only can follow by proposal of the Direktorium and the Reichsrat, therefore not against its will. Before the appointment the President, the Direktorium and the Central-Committee must be heard, and it also is subject to the consent of the Reichsrat.

The constitution of the Direktorium by cooptation - existing already as a fact, because never a proposal of the Direktorium for the election of its members has met a refusal - is herewith legally constituted. The appointment of an unsuitable President against the wishes of the Direktorium and the Central-Committee in normal times is hardly conceivable. But if it should happen once in politically difficult times, such a President would have no significance. Because the policy of the Reichsbank is only determined by the conclusions of the Reichsbankdirektorium; among the twelve members the President only is „primus inter pares” and his special influence can only be the consequence
of

of his personal importance. Through this law the Reichsbank-Directorium is wholly separated from any influence whatever through the Government, and its independence is as perfect and as intangible, as that of the supreme court of justice in Germany.

This state of autonomy of the Reichsbank will to a great extent exceed that of all other Central-banks, perhaps the Bank of England excepted, but from the German standpoint, even that of the Bank of England too, because the organisation of the Bank of England, the constitution of her Board of Directors out of partners from great private banks and commercial houses, which, as much as I know, has thoroughly been proved and has also hardly ever met any difficulties concerning her discount-policy, can not easily be adapted to the German state of things. A similar constitution of the Reichsbank-Directorium would not be possible; a selection out of the interested groups historically represented in the Central-Committee, being of economical importance for the Reichsbank, would represent a real danger for a continuous and positive bank- and discount-policy serving only the object

object and the whole economical life, especially as we miss the financial and economical education of the City and living actually in great political and economical contrasts. We need full independence in both directions -government and interested spheres- and it is therefore, I believe, our system for Germany, giving the interested spheres (central-committee) only a consulting voice, to be better and more adapted.

I am sure, that this new constitution of the Reichsbank shall essentially strengthen its authority in its own country and abroad and its position towards the other Centralbanks, and I also believe, that it can become an example also for other Centralbanks and that this will agree with your wishes for a closer cooperation of the Centralbanks. The importance of corresponding meanings and resolutions of the Centralbanks and their influence on the economical and financial policy of the Government shall be the greater, as the position of the Centralbanks is independent and as it will be clear, that they only aim at serving the matter.

It wants no confirmation, that the Reichsbank as far as possible, also in future will oppose herself to wrong economical measures and especially a policy of inflation

inflation of the government, and the autonomy of the Reichsbank will, if necessary, lay more stress upon such a policy.

But in the whole for the next coming time I only see limited possibilities for the Reichsbank to interfere, and chiefly for limiting the inflation to day the autonomy of the Reichsbank is but a very small expedient. The Allied Governments and especially the Reparation Committee apparently much underrate the large, honest and successful efforts of the German government to limit expenses and to cover the ~~necessa-~~ry expenses by direct and indirect taxes and, as actually, also by loans. But the conditions forced upon us are stronger than human beings, and the financial position of Germany, if remaining such, as it is, is hopeless and the inflation must continue, as long as the impossibility of compensating the balance of payment and of balancing the budget caused by the impossible reparation payments exists. The proceeds of the new direct and indirect taxes and duties settled by the Reichstag amounts to approximately 40 milliards of papermarks; it is, I believe, the very last sum, that

can

can be wrought from the German people.

But the enclosed tables on the budget for 1922 (^{Anlage} Anlage II), which already contain all these new taxes, will show, that only the own expenses of the Reich and its administrations can be covered with all these extraordinary high charges. A surplus of 16,5 milliards in the ordinary budget is faced by 12,3 milliards in the extraordinary budget and that of the administrations of Post and Railways, not yet being covered and to be covered only by loans, so that the real surplus over the whole amount of the own expenses of the Reich (206,2 milliards of Marks) only consists in a little over 4 milliards. But also this surplus surely will before the end of the year soon be exhausted, because the continuing rapid decrease of the purchasing power of the mark, that is the uninterrupted increase of all prices, will be the reason for increasing wages and salaries and expenses for material.

Then the whole reparation budget of 187,5 milliards Mark remains completely uncovered. The calculation of this sum is based upon a mark- exchange of 1 : 45 (1 \$ = ca. 190 M). The sum may be reduced according to the possibility, that the decision of the Reparation Committee consents to a reduction of the reparations

reparations burdens in cash and kind for 1922, and on the other hand it may be still raised if the German exchange continues to fall; at present one \$ equals to 250 M. In order to procure at least one part of the cover for the reparation budget, the German Government, still in the current year, will issue a voluntary internal loan and, after it, a forced loan. The voluntary loan can only be short-dated (probably treasury-bonds for several years), if it should give somewhat considerable returns. Its success cannot be estimated with some certainty, especially considering the danger for the interest and redemption rates by the Peace-treaty (§ 12 Annex 2 to § 244 and § 248 of the Peace-treaty). I believe a return for 5 to 15 milliards to be possible. Also for estimating the proceeds of the forced loan actually ascertained supports are missing; round 40 milliards are expected. But even in the case that through both loans should be realised proceeds of about 50 milliards and that the reparation payments for 1922 should considerably be reduced below the sum agreed upon in the Peace-treaty, and finally that the German exchange should somewhat improve, there will remain at any rate 100 milliards and more without any cover, and

in

in order to procure this amount there is nothing else to be done but to increase the floating debt and paper money. These loans shall therefore only check the pace of the growing inflation, but shall not be able to remove it. The influence of the Reichsbank on the financial policy of the Reich will therefore in the beginning only have a very limited space of action. The discounting of treasury bills to the Reich, the Reichsbank only then will be able to refuse, if the necessary expenditures of the Reich, including the reparation burdens, can be reduced to an amount possible at all to be procured by the Reich, and if then there is any possibility for the Reich to cover a still remaining deficit, which cannot be covered by taxes and current revenues, by other means than through the sale of treasury bills by the Reichsbank, especially through internal and foreign loans.

I. Administration générale du Reich.

a. Budget ordinaire.

<u>Recettes:</u>	Mark	<u>Dépenses:</u>	Mark
1. Impôts sur la fortune et impôts de transport	71 170 800 000	1) Dépenses permanentes	83 057 942 168
2. Douanes et impôts de consommation	25 457 200 000	2) Dépenses uniques	3 050 913 509
3. Autres taxes, etc.	1 836 489 041	3) Excédent disponible pour le budget d'exécution du Traité de Versailles.	16 500 000 000
4. Diverses recettes administratives	4 744 366 636		
<u>Total des recettes</u>	<u>103 208 855 677</u>	<u>Total des dépenses</u>	<u>103 208 855 677</u>

<u>Recettes:</u>	Mark	<u>Dépenses:</u>	Mark
A procurer par l'emprunt	1 849 656 384		
<u>Total des recettes</u>	<u>3 095 461 234</u>	<u>Total des dépenses</u>	<u>4 945 117 614</u>

II. Administration d'exploitation.

a. Budget ordinaire.

1. Administration des Postes et Télégraphes.

<u>Recettes</u>	Mark	<u>Dépenses:</u>	Mark
<u>Total des recettes</u>	<u>16 247 350 885</u>	1) dépenses permanentes	15 926 531 905
	16 247 350 885	2) dépenses uniques	320 818 980
		<u>Total des dépenses</u>	<u>16 247 350 885</u>

2. Imprimerie du Reich.

<u>Recettes</u>	Mark	<u>Dépenses:</u>	Mark
<u>Total des recettes</u>	<u>499 150 000</u>	1) dépenses permanentes	481 507 870
	499 150 000	2) excédent d'exploitation	6 485 473
		3) dépenses uniques	11 156 717
		<u>Total des dépenses</u>	<u>499 150 000</u>

3. Administration des Chemins de fer Allemand.

<u>Recettes</u>	Mark	<u>dépenses permanentes</u>	Mark
<u>Total des recettes</u>	<u>71 998 628 000</u>	<u>Total des dépenses</u>	<u>71 998 628 000</u>

b. Budget extraordinaire.

1. Administrations des Postes et Télégraphes.

<u>Recettes</u>	Mark	<u>Dépenses</u>	Mark
A procurer par l'emprunt:	48 000 000		
<u>Total des recettes</u>	<u>2 456 459 750</u>	<u>Total des dépenses</u>	<u>2 534 459 750</u>

2. Administration des Chemins de fer Allemand.

<u>Recettes</u>	Mark	<u>Dépenses</u>	Mark
A procurer par l'emprunt:	6 500 000		
<u>Total des recettes</u>	<u>6 782 759 000</u>	<u>Total des dépenses</u>	<u>6 789 259 000</u>

Récesses:
 à procurer par l'emprunt
 Total des recettes

1849 656 384
 3 095 401 234
 4 945 117 614

Dépenses:
 Total des dépenses

4 945 117 614
 4 945 117 614

II. Administration d'exploitation.

a. Budget ordinaire.

1. Administration des Postes et Télégraphes.

Récesses
 Total des recettes

Mark
 16 247 350 885
 16 247 350 885

Dépenses:
 1.) dépenses permanentes
 2.) dépenses uniques
 Total des dépenses

Mark
 15 926 531 905
 320 818 980
 16 247 350 885

Récesses
 Total des recettes

Mark
 499 150 000
 499 150 000

Dépenses:
 1.) dépenses permanentes
 2.) excédent d'exploitation
 3.) dépenses uniques
 Total des dépenses

Mark
 481 507 870
 6 485 473
 11 150 717
 499 150 000

3. Administration des Chemins de fer Allemand.

Récesses
 Total des recettes

Mark
 71 998 628 000
 71 998 628 000

dépenses permanentes
 Total des dépenses

Mark
 71 998 628 000
 71 998 628 000

b. Budget extraordinaire.

1.) Administrations des Postes et Télégraphes:

Récesses
 à procurer par l'emprunt:
 Total des recettes

Mark
 78 000 000
 2 456 459 750
 2 534 459 750

Dépenses
 Total des dépenses

Mark
 2 534 459 750
 2 534 459 750

2. Administration des Chemins de fer Allemand.

Récesses
 à procurer par l'emprunt:
 Total des recettes

Mark
 6 500 000
 6 782 759 000
 6 789 259 000

Dépenses
 Total des dépenses

Mark
 6 789 259 000
 6 789 259 000

III. Exécution du Traité de Versailles.

Récesses
 Excédent des recettes générales d'administration
 à procurer par l'emprunt:
 Total des recettes

Mark
 16 500 000 000
 171 031 690 070
 187 531 690 070

Dépenses au budget ordinaire
 " " " extraordinaire
 Total des dépenses

Mark
 147 087 168 000
 39 844 528 070
 187 531 690 070

Aperçu concernant la clôture du budget pour 1922.

Afin de faciliter un coup d'oeil d'ensemble, le budget de l'exercice 1922 a été divisé en trois parties principales:

1. Administration générale du Reich,
2. Administrations d'exploitation,
3. Exécution du Traité de Versailles.

Dans chacune de ces trois divisions, l'on distingue le budget ordinaire du budget extraordinaire.

Le budget ordinaire contient les recettes et dépenses permanentes et uniques, nécessaires à couvrir les besoins courants.

Le budget extraordinaire comprend:

- a) les recettes extraordinaires,
 - b) les dépenses uniques dans des buts d'acquisition,
 - c) les dépenses uniques, étant la conséquence inévitable de la guerre
 - d) celles des dépenses résultant de l'exécution du Traité de Versailles et que l'on ne prévoit pas devoir se reporter sur une longue période.
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Les chiffres indiqués ci-dessus correspondent à ceux du devis budgétaire de l'exercice 1922, modifié suivant les décisions du Reichsrat et actuellement soumis au Reichstag. Il est possible que d'autres modifications résultent des délibérations du Reichstag. Les votes émis au sujet des propositions fiscales amenèrent des changements à quelques articles des recettes, lesquels n'auront d'ailleurs pas d'influence sur le résultat final.

0261

OFFICE CORRESPONDENCE

DATE December 8, 1921

TO Mr. Case

SUBJECT: Relations with Reichsbank.

FROM J. E. Crane

FILED IN

DEC 8 1921

I attach a proposed reply to the letter of November 9 from the Reichsbank. Owing to the fact that the Reichsbank is said to be somewhat discredited in Germany because it has yielded to political influence, and because there have been rumors in Germany of a new government bank, and the situation there appears to be very uncertain at the present time, I do not believe it would be wise to enter into close reciprocal relations with the Reichsbank such as we have with some of the other foreign banks. It would appear desirable to leave the matter of negotiating a formal agreement and making formal appointments for future consideration and merely indicate to them at this time that we are willing to open a current account for them and make investments for their account, but not extend credit. I understand from Governor Strong's letter to Governor Norman that he believes any arrangement with the Reichsbank should be predicated on a clear understanding that we will not interpose credits for reparation account as Governor Strong would be opposed to our permitting our resources to be used in furthering and continuing the present reparation muddle.

- 11/25/21

You will note that in my proposed reply I have not indicated our reasons for declining to extend credit, and as it is a rather delicate matter to explain in any detail, I thought it might be dealt with to better advantage in a personal letter from Governor Strong to President Havenstein in reply to the latter's personal note to Governor Strong, rather than by embodying the reasons in the formal letter to the Reichsbank.

JEC/MK

Agent's cover handed to be available as occasion arose

138 personal
Extract from a letter written by Governor Strong to Governor Norman, Bank of England, under date of November 25, 1921.

"First as to your visit from President Havenstein and Mr. Kauffmann. I am very much impressed indeed by what you write. It may be that this is partly sentimental for your letter indeed presents a sad picture of an old man heart broken and disappointed and apparently helpless in the face of events. I have been told that he is a most reliable and conscientious banker, but that he has lost his prestige in Germany because of the failure of the Reichsbank to withstand the pressure of political domination. This seems to agree with what he himself stated of conditions in Germany.

"It is difficult to comment upon the contents of your letter, excepting to add that it seems to add a few more strokes of the brush to a desperate and hopeless picture. I am very much discouraged by recent developments in Germany, and by what has been told me by Herr Bergmann of the Deutsche Bank, who has been here discussing the possibilities of a loan for the purpose of protecting the position of the mark vis-a-vis the dollar.

"Of course we will be most pleased to correspond with the Reichsbank. I would like to establish relations with them of the right character and do everything that we can for them in a helpful and constructive way, but it is an arrangement which, it seems to me, should be predicated upon a very clear preliminary understanding that we will be unable to interpose with credits for reparations account. I would indeed feel shaken in my confidence in my own judgment if we permitted our resources to be employed in furthering and continuing the impossible situation which has developed out of the reparations muddle. It is better to have the break promptly, in my opinion, rather than to promote indefinite postponements with an ultimately more serious breakdown than would occur if reconsideration of the matter were forced in the near future by realization of Germany's inability to continue payments at the proposed rate.

"If President Havenstein writes us, as I presume he will, I shall endeavor to send him as definite a reply as possible and one which will be satisfactory up to the point of extending credits, which I do not think we should do at the present time; nor in fact do I feel that he is likely to solicit them.

"Herr Bergmann has in mind a loan of \$25 to \$50 millions for six months to be furnished by a strong group of American banks with the sole object of buying marks, in an effort to restore them to a value of about 1 1/2 to 2¢. He thinks the sentimental effect of the announcement of such a loan will drive the German speculator or hoarder of foreign currencies to selling them, and that the German Government can acquire this foreign currency through the instrument of a large gold mark loan, which would in effect be a domestic dollar loan, subscriptions to which would be made in dollars, or any other foreign currency now held by German citizens, at rates of conversion to be fixed by the German Government.

"I doubt if the project can be carried out. In fact doubt the wisdom of it anyway, upon the same grounds mentioned above. I have told Herr Bergmann that our attitude towards promoting such a transaction would be governed by the attitude of some of our officials in Washington. There seems to be too much transpiring just now to risk complications, which would defeat other matters of major importance."

December 14, 1921.

WILING DIV.
FEB 8 1922
FEDERAL RESERVE BANK

The Reichsbank Direction,

Berlin, Germany.

Dear Sirs:

We have your esteemed favor of November 9, which interests us very much.

We note particularly the considerations which have led to the establishment of relations between you and the Bank of England and the extent of these relations as described by you. In reply to your first question, we are pleased to assure you that we would be glad to enter into a similar relation with you. Like the Bank of England, we are not in a position to grant interaction deposits; we also would have to undertake to make interest bearing investments for you in order that your balances maintained in this country might not be unproductive. Such investments would be in bankers bills or United States Treasury Certificates of Indebtedness or other United States Government securities, such as we might ourselves invest in. It would be agreeable to us to receive compensation for this service either by the maintenance of a compensating balance in current account or by payment of a nominal commission for our services in making such investments which would be taken and held for your account and risk with the same care which we give to our own investments.

If, however, it would be more agreeable to you to have our guaranty of payment at maturity on any such investments which might be taken for your account, and further agreement to take them back from you prior to their maturity upon receipt of suitable notice, we could undertake to do that for you

within such limits as might be mutually agreeable, and with suitable provision for compensation say, a commission of $1/4$ of 1 percent. per annum on the face amount of bankers bills and $1/8$ of 1 percent. per annum on the amount invested in Treasury certificates.

With reference to the second question raised in your letter of November 9, relating to possible advances by this bank against gold deposited with a foreign bank, we scarcely need assure you of our desire to cooperate with your institution in these matters but we should prefer that you do not raise this question at this time.

We have the honor to remain,

Very truly yours,

B.S.
Benj. Strong,
Governor.

JEC/MK

December 14, 1921.

Rudolph Havenstein, Esq.,
President, The Reichsbank,
Berlin, Germany.

My dear President Havenstein:

I was glad to receive your personal letter of November 9, accompanying the letter of that date from the Reichsbank Direction to the Federal Reserve Bank of New York, and to note your observations with respect to the matters discussed by you with Mr. Norman on the occasion of your recent visit with him in London.

You are correct in your assumption that his views, which are well known to us, are shared in by me and my associates in this bank. A formal letter from this bank has to-day been addressed to the Reichsbank Direction in reply to its letter of November 9, but I wish to state to you that we shall be most pleased to correspond with the Reichsbank, and to establish relations with it of the right character and do everything that we can for them in a helpful and constructive manner, but I feel it should be mutually understood that such arrangements must of necessity at the present time be predicated upon a very clear recognition that we will be unable to interpose with credits for reparations account, and you will, therefore, better understand the reference thereto in our formal letter addressed to the Reichsbank Direction.

I venture to hope with you that a close connection of the banks of Germany, England and this country may be helpful in developing broader international cooperation of the central banks of all important countries and to express the hope also that happier times will presently permit of broader and fuller cooperation between us.

With kindest assurances of my high personal esteem, I remain,

Very sincerely yours,

J. Nass
for Benj. Strong

BENJ. STRONG

JEC/ELS

Reichsbank

December 16, 1921.

Montagu Norman, Esq.,
Governor, Bank of England,
London, England.

X BK

My dear Mr. Norman:

As you and Mr. Strong have discussed the establishment of relations with the Reichsbank, and as he is now away from the bank on account of illness, I wish to write you, in his absence, of our negotiations with the Reichsbank.

Mr. Strong has already indicated to you that we would be glad to establish relations of the right character with the Reichsbank but would not care to interpose credits for reparation account, and we believe any relations which we might enter into with them should be based upon a definite recognition of that fact.

11/9/21

We recently received a letter from the Reichsbank Directorate suggesting the establishment of direct connections, and we have replied along the lines indicated above; namely, that we would be glad to open an account for them and make interest-bearing investments for their account, but that we would not care to extend credits at this time.

Accompanying this letter from the Reichsbank Directorate was a communication from President Havenstein, in which he mentions that in his recent conversation with you as to the desirability of close connections between the central banks of issue you were in accord with his suggestions, and indicated that Mr. Strong shared your views. We have assured President Havenstein that your views are well known to us and are shared in by Mr. Strong and his associates in this bank.

I shall be glad to keep you informed of any further developments in these negotiations and, with kindest personal regards, beg to remain,

Cordially yours,

[Handwritten signature]

J. M. BAST

Deputy Governor

RECEIVED CORRESPONDENCE

DATE January 14, 1922

TO Mr. Case

SUBJECT:

FROM Benj. Strong

I do not feel prepared, really, to comment upon the Treasury program without more study than I have been able to give the matter, but it does seem to me that with victories selling now squarely above par, the opportunity may have arrived for an exchange. The one criticism that I have of Mr. Gilbert's accomplishments in the refunding matter during the past year is the comparatively small amount of victories retired compared to what should have been retired in order to reduce the amount of funding to be done eighteen months hence.

I am returning the Reichsbank correspondence and memoranda which I have read with much interest. It struck me that the personal letter to President Havenstein was rather cool and not encouraging to develop the right kind of relations. No harm is or will be done by this, but I would like to have the paper passed back to Mr. Beyer, as I should like to write President Havenstein a personal letter on my return from Atlantic City.

BS:MSB
Encs.

See ^{Mr. King} ~~letter~~ ^{letter} to ^{Norman} ~~Norman~~ ^{all} ~~with~~

Mr. Tolson. This needs careful consideration.
I see nothing in the way of doing the
business, but suggest that something be
prepared along line of my cable to Norman,
informing how with. Think our Director's should
be sounded, & J.R. Powell's approval is needed, -
at least as soon as we decide to make
appointments. Let me see what is returned. P.D.

The President of the
Reichsbank Direction

No. 101/I

Berlin, S. W. 19, January 19, 1922

Mr. Benjamin Strong,
Governor, Federal Reserve Bank of New York
New York

Sir:

I am glad to acknowledge the receipt of your kind letter of the 14th of last month, and beg to refer to the letter of the Reichsbank-Direction of the 9th of this month to the Federal Reserve Bank of New York, through which the opening of an account is by this time under way.

In regard to the question of the gold loan, I beg to call to your attention the fact that in relation to the Federal Reserve Bank as well as to the Bank of England and the Bank of the Netherlands it has been far from our intention to wish to use a gold deposit in England for creating reparation credits; that, in the interest of as safe and normal a development as possible of the German and the international money market, and in the interests of checking speculation in foreign exchange, it is, rather, for us simply a matter of directing our transactions in money and exchange uniformly from one place; also, that the sums in question, which might, at the most, amount to perhaps 10 million dollars, are to be drawn upon only temporarily and would not bear any relation to credits for meeting reparation payments; and that, on this account also, the Bank of the Netherlands, in agreement with the Governor of the Bank of England, has declared itself ready for these transactions. I should, therefore, like to ask you to ^{re}consider the question of the gold loan from this standpoint, and to be so kind as to let me know whether, in view of this aspect of the situation, a renewal of the Reichsbank's suggestion would meet with your approval.

Assuring you of my esteem, I am

Very truly yours,

(1 signature)

Der Präsident
des
Reichsbank-Direktoriums.

Berlin SW. 19, den 19. Januar 1922.

Nr. 101/ I.

Sehr geehrter Herr Gouverneur!

Mit verbindlichstem Dank bestätige ich den Empfang des gefälligen Schreibens vom 14.v.Mts. und nehme ergebenst Bezug auf das Schreiben des Reichsbank-Direktoriums vom 9.d.M. an die Federal Reserve Bank of New York, durch das die Eröffnung eines Kontos nunmehr in die Wege geleitet worden ist.

Hinsichtlich der Frage der Goldbeleihung erlaube ich mir, darauf aufmerksam zu machen, daß es uns der Federal Reserve Bank ebenso wie der Bank von England und der Niederländischen Bank gegenüber völlig fernegelegen hat, ein Golddepot in England zur Beschaffung von Reparationskrediten benutzen zu wollen, daß es uns vielmehr lediglich darauf ankommt, im Interesse einer möglichst ruhigen und gesunden Entwicklung des deutschen und des internationalen Geldmarkts und zur Eindämmung der Devisenspekulation

An

unsere

den Gouverneur der Federal
Reserve Bank of New York
Mr. Benjamin S t r o n g

in N e w Y o r k.
- - - - -

unsere Geld- und Devisentransaktionen einheitlich von einem Punkte aus zu dirigieren, daß auch die Summen, um die es sich handelt und die sich im Höchstbetrage auf vielleicht 10 Millionen Dollars belaufen könnten, nur vorübergehend in Anspruch genommen werden sollen und außer Verhältnis zu Krediten für die Aufbringung der Reparationsleistungen stehen würden, und daß deshalb auch die Niederländische Bank sich im Einverständnis mit dem Herrn Gouverneur der Bank von England zu diesen Transaktionen bereiterklärt hat. Ich möchte daher bitten, die Frage der Goldbeleihungen nochmals von diesem Gesichtspunkte aus zu prüfen und mir gefälligst mitteilen zu wollen, ob gegenüber dieser Sachlage eine erneute Anregung der Reichsbank dortseitige Zustimmung finden würde.

Mit der Versicherung meiner ausgezeichneten Hochachtung

Ihr sehr ergebener



February 9, 1933.

My dear President Havenstein:

At the time of receipt of your kind letter of November 9, it was my misfortune to be incapacitated from giving much personal attention to that and other matters, as I was obliged to go to the hospital for a slight operation, and this is my first opportunity to send you a personal and confidential letter, such as I had hoped to write at the time my letters of December 14 were prepared by one of my associates for my signature.

While you may regard those as ^{the} formal expression of the attitude of the bank, I am now writing to explain that my friend, Governor Norman of the Bank of England, has kept me personally fully informed of his meetings and his correspondence with you and, as he has doubtless advised you, I am very much in sympathy with the general purpose which he expressed, of bringing about a more intimate and sympathetic relationship between the various banks of issue than has heretofore existed, or been possible.

Such relationships I have always regarded as depending more upon personal acquaintance, understanding, and mutual respect and confidence, than upon the mere formal understandings that can be arrived at by correspondence. It will be necessary, according to my view, to await opportunity for a meeting with you when I may have the pleasure of discussing some program of accord, and I am looking forward to an occasion when that may be done. In the meantime, this is simply a general, and quite personal letter of assurance to you for the purpose of expressing my belief that, within the limits imposed upon us by the Federal Reserve Act, and those required by good business judgment, our minds are open to proposals for such a relationship as will be to our mutual advantage and profit, and in the course of years will develop a good understanding between your institution and

The Federal Reserve System is such a complicated and has now become

such a vast organization that I do not think it is always possible for our friends in other lands to understand its many ramifications, and why certain policies are necessary. We have, as you know, twelve so-called regional banks, each serving a distinct geographical division of the United States. Such a regional system, as distinguished from a branch system, is not only possible but necessary in a country as large as ours and with so many diversified interests; and is in fact a better system than a branch system in practically all respects but one; namely, in the conduct of such foreign business as the system undertakes. To overcome that defect in the Federal Reserve Act as originally passed, it was amended some years ago so that it now provides that, with the approval of the Federal Reserve Board, which is the supervising body appointed by the President, one Federal Reserve Bank may act in behalf of all twelve Federal Reserve Banks in that department of the System's business. Were such a plan not adopted, all sorts of complications would be likely to arise. The Federal Reserve Bank of New York has been designated by the Federal Reserve Board to conduct business of that character and acts in behalf of all of the Federal Reserve Banks. It is in fact for that reason that I have invited this correspondence with you. But you may properly infer from what I have now written to you that whatever we do is in behalf of the System as a whole rather than the Federal Reserve Bank of New York alone. I mean, of course, so far as concerns any actual business which may develop.

It should further be explained that the Federal Reserve Board, which has its offices in the Treasury Building in Washington, is not an operating body, but a supervising body, and the conduct of such business as we may undertake with you will be based upon understandings which we may arrive at, subject to the subsequent approval of that Board, and of the participation authorized by the respective boards of directors of the other eleven reserve banks. This appears to make the inauguration of new business connections a rather formidable and cumbersome matter;

February 2, 1922.

the preliminary understandings are definitely set out; so that I would not have you regard this as an obstacle in the accomplishment of the purpose which we mutually have in mind.

As Governor Norman doubtless has explained to you, one of the important results of the understandings already concluded between certain of the banks of this country, has been the exchange of information in regard to conditions and developments in our respective countries, which is of interest and importance. I shall hope that you will find this in accord with our purpose to develop such a relationship. We are just now especially interested in the discussions which are taking place in Germany (according to press dispatches) respecting a possible change in the status of the Reichsbank. If you feel at liberty from time to time to write me on this and similar matters, will you not be good enough to do so, and indicate to me in like fashion any matters concerning which you would like to hear from me.

Please accept my apologies for this long letter. It is my first opportunity to dictate it, and I have written you with considerable freedom in order that you may understand the friendly spirit in which we are approaching this matter, and with which we hope to see a mutually valuable relationship ultimately developed.

With assurance of my high personal esteem, I beg to remain,

Faithfully yours,

Adolph Havenstein, Esq.,
President, The Reichsbank,
Berlin, Germany.

My dear President Havenstein:

It occurs to me to suggest that the facilities of your bank might enable you to write me personal communications of this character in English. It will be preferable if that can be done, as it avoids a certain amount of translation and copying.

This, however, is only a suggestion, and made subject entirely to your own convenience.

Yours sincerely,

Rudolph Havenstein, Esq.,
President, The Reichsbank,
Berlin, Germany,

FEDERAL RESERVE BANK
NEW YORK

COPY OF TELEGRAM SENT IN CIPHER

CASH DEPARTMENT
CODES & TESTS SEC.

Via Radio

1000
DICTATED BY

TIME

COPY FOR WIRE TRANSFER DIVISION

February 20, 1922.

Havenstein,
Reichsbank, Berlin,
Germany.

Attention to your letter January nineteenth has been delayed by our holidays. After full consideration we believe it will be inadvisable for you to renew proposal for gold loan at the present time. This need not be construed as indicating a permanent policy regarding our relations. We shall write you fully by an early mail.

Federal Reserve Bank of New York.

1201
Reichsbank

RECEIVED
MAR 2
FEDERAL RESERVE BANK

February 21, 1922.

PERSONAL

Dear President Havenstein:

Your kind letter of January 19 arrived at a time when because of the absence of some of my colleagues during the holidays of this month, it was necessary for me to delay a reply until this week. In order that you might not be inconvenienced I cabled you yesterday as follows:

"Attention to your letter January nineteenth has been delayed by our holidays. After full consideration we believe it will be inadvisable for you to renew proposal for gold loan at the present time. This need not be construed as indicating a permanent policy regarding our relations. We shall write you fully by an early mail."

The circumstances to which our earlier letters had reference, and which led to our writing you in the terms therein expressed, still impel us to adhere to the policy therein indicated in regard to credits of the character described in your letter. We do not wish you to understand that we are unsympathetic in the difficulties with which you are necessarily confronted, nor that we would not desire, were it in our power, to facilitate their solution.

It has, however, seemed to me, and to my associates as well, that such a credit as that indicated in your letter can not be dissociated from the whole subject of reparations, the adjustment of which appears to us at this distance to be, at the present time, a subject of importance to the whole world. We lay emphasis upon the point that this small credit of \$10 millions can hardly be expected to bring about any stability in the exchanges, the effect would be temporary, and the amount inadequate to accomplish the object sought to be attained.

In an academic sense we can hardly overlook the fact that the weakening

of the Reichsbank as a bank of issue, on the one hand, by continually enlarged

February 21, 1923.

issues of notes, and on the other hand, by the dissipation or pledging of its gold reserve, must in itself be an influence towards unsettling the exchanges, and that the subject requires a more thorough-going and fundamental treatment than seems to be possible by the establishment of a credit of this character.

It is my earnest hope that you will understand the friendly spirit which prompts me to dictate a reply of considerable frankness to your courteous letter of January 19.

With assurance of my esteem, I beg to remain,

Faithfully yours,

Dudolph Havenstein, Esq.,
President, The Reichsbank,
Berlin, Germany.

18. MM

Der Präsident
des
Reichsbank-Direktoriums.

Berlin SW. 19, den 21th of March 1922.

Nr. 5810.

ACKNOWLEDGED

APR 14 1922

R. S.

Private and confidential.

Dear Mr. Governor !

I have the honour to acknowledge the receipt of your kind letters of the 3rd and 21st of ~~March~~ Feb. and have taken much interest in your deductions concerning the system of the Federal Reserve Banks. You will surely believe, that I would be very glad to have a conversation with you about the matters interesting us both, if I had a proper occasion for meeting you. I assume from your kind letter, that your Bank out of certain reasons for the beginning is not in the case to pay attention to our suggestions of gold loans. But nevertheless I would like to point out, that the Reichsbank too, of course, does not expect "a stabilising of the rates of exchange" by a temporary loan of a comparatively small amount of gold, but only thinks about a facilitation for its own dispositions and together with

with it hopes, that too vivid oscillations of the daily rates could somewhat be moderated.

The chngement of the Bill of the Reichsbank and the rules of the Reichsbank in the sense of an autonomous position of the Reichsbank has in the meantime considerably been furthered. I took the opportunity, to write about it more amply to Mr. Norman, and beg to join a copy of the points relating to it in my letter for your information. It can be expected that the bill in short will pass the Reichstag.

Your kind suggestion as to a mutual exchange of opinions I am only too happy to accept, and will not forget about it occasionally.

I remain most respectfully yours



Mr. President:

Your kind letter of March 21 reached the office during my absence in Washington, and only to-day have I been able to read it carefully, as well as the assurances.

You have not, I am sure, misunderstood our attitude in regard to the proposed advances upon gold. This letter you may consider as a confidential expression of my personal views, as I think you should know them in view of what I have already written you on the subject of our future relations.

It has appeared to me that the formula applicable to the establishment of reparation schedules of payments must ultimately in some form provide that the total shall be within the capacity of the German people to pay reparations. A scheme not conforming to this formula must ultimately break down. On the other hand, I cannot help but recognize, as I am sure that you do, that it is within the power of the German Government to enlarge or impair its capacity to make reparation payments, according as it may pursue a sound or unsound policy in financial and monetary matters. I am frank to say to you, quite privately and personally, that, in general, my own view has also been that the earlier schedules were excessive, possibly because they were excessive, or due to some other cause, reform in Germany has not progressed to the point where it might have progressed had the schedules been more moderate. This, of course, is a rather broad statement, and I shall not undertake to cite any supporting data, or make any statement in detail.

These comments are called forth, however, in response to your own most interesting memorandum respecting the efficacy of a more complete autonomy in the

management of the Reichsbank resulting in anything in the nature of control of emissions of currency.

As I took the liberty of writing to Governor Norman some months ago, the proposal for more autonomous management of the Reichsbank would seem to put you personally in position to exert an influence upon your Government's financial and monetary policies, but beyond that, if the budget cannot in fact be brought into balance, or reasonably into balance, there is simply the choice between further emissions of bank notes, issues of some other currency directly by the Government, or suspension of payments.

I hope you will not mind my asking you rather frankly a personal question which is puzzling me very much. It bears directly upon the subject of reparations, and upon the ability of your Government to cover even a reasonable schedule of payments within a reasonable period of time.

We read many comments in the press upon the rather panicky scramble of the German people to buy property and by those of large incomes to convert their bank balances and currency into physical properties. This it is reported has extended to those of very large means who seem to be acquiring very large industrial and other interests to such extent in fact that there seems to be a concentration of the instruments of production in Germany into a comparatively few hands.

What I would just now be interested in learning is what type of financing the proprietors of these enterprises undertake in acquiring their properties. Are they issuing obligations bearing fixed interest with fixed maturity? Or are they acquiring these properties by the issue of stocks or other instruments, which have no fixed maturity and upon which interest payments depend upon earnings? The point is, of course, that profits acquired under the existing conditions in Germany, which are somewhat artificial because they represent enhancements in value growing out of depreciated currencies, must nevertheless be taxed, and very heavily taxed if the constant currency depreciation and consequent enhancements in property values are to find reflection in enlarged government revenues.

April 14, 1928.

While it goes without saying that even our own government has suffered some inconvenience in balancing its own budget, due to the appreciation in the value of the currency and the corresponding decline in commodity and other values being reflected in its income, I can well apprehend the serious difficulty with which the German Government will be confronted if its system of taxation does not provide means for enlarged revenues, which would compensate for the decline in the value of the mark.

Those of us who are earnestly considering what means may be adopted for facilitating world recovery are here, in the case of the German position, confronted with a type of criticism which it is very difficult to answer, and it would indeed be illuminating to me were you able to send me some discussion of this feature of your Government's program of taxation.

You will, I am very sure, Mr. President, understand that I am writing you frankly in a most friendly spirit, but quite confidentially, in thus expressing my personal views, in the hope that you will reciprocate in quite the same fashion, and with equal freedom. What you write me will, of course, be for my own information.

Again thanking you for your courtesy in sending me the interesting documents accompanying your letter, and with assurance of my esteem, I beg to remain,

Faithfully yours,

Benj. Strong,
Governor.

Rudolph Havenstein, Esq.,
President, The Reichsbank,
Berlin, Germany.

Der Präsident
des
Reichsbank-Direktoriums.

Berlin SW. 19, den 31st of May 1922.

Nr. 7 geh.

ACKNOWLEDGED

Private and confidential. OCT 2 1922

B. S.

Very German translation!

Dear Mr. Governor!

I have the pleasure of expressing you my sincere thanks for your kind letter from April the 14th a.c., which I received on the 28th of April. Especially I am grateful to you for writing to me personally and confidentially and quite openly, and I for my part will also openly and freely answer the questions you put me.

I am much pleased to understand from your words, that you personally ^{regard} think the amount of the deliveries charged upon the German Nation in accordance to the schedules of payments made up hitherto to be ^{excluded} too exaggerated. According to a most careful examination and a thorough knowledge of Germany's conditions I must absolutely testify this your opinion as a true one. The amount, Germany has to pay in cash and in commodities, as a fact far ^{exceeds} superates her financial and economic capacity of payment.

This capacity of payment chiefly depends upon the situation of Germany's balance of payment. As you probably will know the Vice-President of the Reichsbank,

To the Governor
of the Federal Reserve Bank of New York,
Mr. Benjamin Strong,

Dr.

New York.

(That is, of cash)

Dr. v. Glasenapp, in the first Reconstruction number of the Manchester Guardian Commercial of the 20th of April has discussed the question of the German balance of payment, which in its details and results perfectly agrees with my views and convictions. Therefore I would like to recur upon this article, which I here beg to join in a photographic copy. The figures concerning the German (visible) balance of trade shown in this article finish with the end of the past year, because, while writing the article, more recent figures were not yet available. In the meantime the figures for the first 4 months of 1922 have been statistically fixed; they amount to (in million goldmarks)

Annex A.

Loose in file

	for January	February	March	April
imports	282,4	245,9	338,4	407,6
exports	321,6	296,7	323,4	330,8

that is an excess of exports of: 39,2 Excess of exports of: 40,8 Excess of imports of: 15,0 Excess of imports of: 76,8

The first two months showing an active balance of trade, this is to be explained by the decrease of imports, especially by the fact, that the import of necessary foodstuffs having already at the end of the past year much decreased had still more to be pushed back in the two first months of 1922. But then in March and April imports show a considerable increase, because we could no longer renounce sufficient imports of foodstuffs, if we would prevent a dangerous reduction of the standard of life and the productive power of the German people. The consequence was a ^{adverse} ~~passive~~ balance of trade for these months, which proves the opinion expressed in the article, that it can not be

hoped

In favor of gold in Germany rehabilitation

hoped for ^{a favourable} ~~an active~~ trade balance as a total for the current year. So-called invisible exports, which might wipe out the ^{adverse} ~~passivity of the~~ trade balance, are not at the disposal of Germany to a large amount, and as far as they exist - purchase of German property, enterprises, stocks by foreigners - they reduce the substance of Germany's national property and increase the German foreign debt; only the travelling of foreigners in Germany gives a moderate asset, to be estimated to a few hundred millions goldmarks at the highest. On the contrary, as the article describes more detailed, for paying interests and amortisation of credits taken up abroad Germany has to pay about 750 millions goldmarks a year and large amounts for foreign shipfreights, as she has lost nearly her whole merchant navy; to this must be added the enormous payments according to the peace treaty, the cost for the occupation army, payments for clearing purposes and above all the reparation payments in cash and kind. For so-called internal payments (that is payable in papermarks) for occupation purposes up to the end of March, 1922, about 14 000 millions had to be paid. To what amount the much higher external payments for occupation purposes (that is payable in goldmarks) have to be summed, can not yet exactly ^{be} fixed, as a final account is missing. The German government has estimated them ^{to} about 5 500 millions goldmarks up to the end of March, 1922. The reduction of the costs of occupation - resolved by the Allies according to newspaper reports - to a total of 240 millions goldmarks yearly has not yet been realised. For clearing purposes 468 millions goldmarks

goldmarks had to be paid until the end of 1921, at the end of April 1922 the whole amount will have reached about 550 millions goldmarks.

According to the so-called London Ultimatum Germany is obliged to pay for reparations 2000 millions goldmarks a year as a fixed payment and besides 26 % of the whole German exports as a variable payment. The total exports then being estimated to 5000 millions goldmarks, a total annual payment of $2000 + 1300 = 3300$ millions goldmarks would hereafter be the result. Already in 1921 it was proved impossible to bring up this total amount, and at the same time it also was proved, that the only endeavour to bring it up had the most disastrous economic consequences not only for Germany, but for the countries connected with ~~it~~^{her} by commercial interests. With regard to this it was settled in Cannes to call in as the total amount of payment until further notice 720 millions goldmarks in cash and 1450 millions goldmarks in payments of kind.

In order to put the signification of these figures for Germany's capacity to pay into the right light, I would like to show you two other figures:

Before the war the ~~assets~~^{net income} of the whole of Germany's balance of payment amounted to about 700 - 800 millions goldmarks. One ought not to forget that then Germany owned the colonies furnishing ~~it~~^{her} with raw materials, the provinces of Posnania and West-Prussia providing ~~it~~^{her} with agricultural products, a large merchant navy, many ~~milli-~~^{thousand} ~~liards~~^{millions} in gold in foreign securities, many ~~milli-~~^{thousand millions} ~~liards~~^{of} of

German

German private property in the countries of her enemies, the industrial enterprises and the rich ore- and coal-deposits in Lorraine, in the Saar-district, and in Upper-Silesia etc. and was unrestricted in her commerce. Today all these values, with which she could have paid her foreign debts, have been taken from her; the annual reparation payments nevertheless required however amount to the 5 - 3 fold of the said whole previous assets.

Further: England's war-debt to the U.S. amounts to about 4500 millions \$, that of France to about 3500 millions \$. The annual payment of interest therefrom would be, reckoned with 4 $\frac{1}{2}$ %, about 800 and 640 millions in gold, that is only a fraction ($\frac{1}{5}$ - $\frac{1}{3}$) of the burden exacted from Germany. Both of the countries have in the ~~passed~~ ^{past} three years declared to be unable to bear this burden, and France does so until today.

It is obvious, that the German national economy hereafter is not nearly able to bring up these enormous amounts of interests, of clearing payments, of payments for occupation and reparation purposes, which - according to the moderated reparation figures settled in Cannes and the above mentioned reduction of the costs of occupation, probably intended but not yet realised - would amount to 3500 millions goldmarks every year. Such sum of indebtedness can after all definitively be brought up only by way of excess of exports. This, in the discussions at the conference of Genoa, has generally been acknowledged. In the unanimously accepted introduction of the Report made by the commission of financial experts of the Genoa conference

it is said as follows:

"Foreign obligation by one country must be balanced by a capacity in other countries to absorb the surplus production with which alone those obligations can be met. If the burden of any country's external obligations is beyond its capacity to pay, and it cannot be assisted by foreign loans, the effort to meet those obligations must accordingly result on the one hand in dislocation of markets in other countries, and on the other hand in a continuous depreciation of the currency of the debtor country, which will entirely prevent it from making any start whatever in the direction of stabilisation."

? Judging after the ^{adverse} ~~passive~~ trade balance and the smallness of so-called invisible exports Germany, as a matter of fact, only was able to pay the enormous amounts abroad by taking up credits, by selling German securities or other parts of German national property or by selling marks. It is clear, that, especially the continuous selling of the mark was apt to depreciate more and more the rate of the mark exchange and it is evident, that this depreciation will in ever growing measure continue in future, if the burden forced upon Germany will not be diminished to a bearable degree. Finally the German mark would become unsellable abroad, and by this fact a complete collapse of Germany's national economy would be the consequence.

This development can not be avoided by an ever so skilful and sound financial and currency policy of the German government. Because also by straining to the utmost the taxations of the German people only amounts in paper-

mark

mark can be got in, whose change into foreign currencies in order to execute payments abroad, only could be effected by a continuously growing sale of papermarks. This continuous sale must, as it was already said, devalue the mark ever more and the necessary amount in papermarks must increase on and on. Of course I am of your opinion, that the German government is able to have an influence upon the capacity for effecting the reparation payments, according as it may pursue a sound or unsound policy in finance and monetary matters. But nevertheless it can not be doubted, that in front of the reparation payments, which equally overcharge the German balance of payment and the budget of the Reich, even by the most suitable financial measures, especially in taxation and currency questions, the imminent collapse can not be hindered.

Concerning the development of Germany's taxation-system and the reform of the finances of the Reich, I recur to the statements given in the memorandum of the Reichskanzler in date of January the 28th a.c., which I join in a copy together with all its annexes; some of the figures given in the annex II, having altered in the meantime, I ordered to be corrected. The statements give a conception of the extraordinary difficulties, with which the changement of the whole taxation-system was connected, in order to get an adequate income for rising such enormous sums. The collection of taxes had, until the end of the war, been executed by the "Bundesstaaten" of the Reich, whose officials worked after quite different methods. In front of the large debt service of the Reich the financial reform

Annex B.

Loose in file

reform in Germany had to begin with unifying the financial administration and taking it over to the Reich in order to equally distribute taxation. One was conscious about it, that the speed of getting in the wanted taxes would suffer temporarily under these changes and developments of the administration. But these difficulties had to be taken into account if a way^{out} of this financial disorder should be found. Besides I would like to point out, that the finances of the Reich were for a long time charged with great amounts of unproductive expenses - help for unemployed, allowances for foodstuffs etc. - which were necessary to avoid a deviation of the broad masses of the population, after the military collapse of the Reich, into the most radical political directions and a social dissolution of Germany.

The financial reform began with a strong grip on the fortunes grown or originated during the war by extraordinary war taxes from the property and with a large offer, taken only once, from the property, the so-called "Reichsnotopfer" (emergency tax). Besides a general, partly very severe increase of current taxes took place and a large number of new taxes were introduced. The annex I of the here joined memorandum of the Reichskanzler from January the 28th a.c. offers more details for the development of the taxation system. On the results, which these taxes have already brought in and on the further development in the last months, I would like to extract some notices out of an article of the secretary of state Dr. Schröder, going soon to be published in one of the Reconstruction-numbers

struction-numbers of the "Manchester Guardian":

"The effects of the financial reform are clearly shown by the effective receipts of the Reich since 1919. They were

in 1919	10.543	millions	marks
" 1920	50.801	"	"
" 1921	87.374	"	"

(The receipts during the fiscal year 1921 are specified in the added survey of the financial board of the Reich.)

Annex C.

Loose in file

The increases of the German taxation-burden is evident hereafter. It is to be owed to the collective effect of direct and indirect taxes, which only as a whole are to be considered as the burden of a people. They would have wholly sufficed to cover the states needs, if the constant fall of the German exchange had not increased the expenses of the Reich all along. The experts of the Allies on the Conference at Bruxelles in 1920 have expressed, that Germany's "actual tariffs for the direct taxes seemed to have been driven to the utmost, and that, if the assessment was brought in order again and the taxes yielded the full return, one perhaps even would come to the conclusion, that concerning the fiscal results, being so nearly connected with Germany's economical wealth, a reduction of certain direct taxes had to be taken into consideration, especially of those laying heavily on trade and industry. Nevertheless Germany resolved already in 1921 a further strain of taxes. The taxation-bills having passed the Reichstag in the third reading at the end of March till the beginning of April 1922 increase the rates of taxes for corporations to about 35 % for industrial companies. They introduce a continuous property-tax, rising up to 1 % a year and of which for the time of 15 years additions up to 200 %

are

are raised, taking the place of a part of the "Reichsnotopfer" not yet raised. The old property-tax is replaced by an increased tax for additional property with rates up to 10%. The property is further more charged by a number of stampduties (for establishment of companies, for turnover of stock exchange, for the issue of securities) being achieved in a "Kapitalverkehrssteuergesetz" by independent taxes with higher rates. Also the taxes for automobiles, for insurance and totalisator have been increased. But above all the rate of the general duty on mercantile transactions has been raised up to 2 %. The coal-tax having increased from 20 % to 40 % of the coalprice the burden for the whole production and consumption has become heavier. Also the customduties fixed on the goldrate have been considerably enhanced, among them especially the taxes for objects of luxury. What signification for the economy the increase of customs necessarily has, is understood by the statement, that by paying in paper money the actual rate is 5900 % to be added to the custom-rate. The rates of the most of the internal consumption duties have partly been recently increased to a manifold of the previous rates. Also the receipts from hectolitres of the monopoly of spirits has been raised to a manifold amount."

Of course the ^{rapid} ~~quick~~ increase of the receipts of the Reich since 1919 must partly be explained by the progressive devaluation of the papermark. For the rest it must be taken into consideration, that it takes some time - the Belgian Minister Theunis reckons 2 to 3 years for it - until the assessment and the collection a new tax smoothly act. At any rate the reproach made occasionally to Germany, that she does not really carry through her

bills

bills of taxation, is not justified, as I surely can affirm, knowing the situation. The assertion that the charge of taxation in Germany is less high, than in the victorious countries is refuted in the subannex 2 of the Reichskanzler-Memorandum. Recent investigations made by Englishmen came to the conclusion, that as well the indirect, as the direct taxes in Germany were much harder to bear, than in France and England. The "Daily News" of March 2nd a.c. state about the two largest indirect taxes of Germany, viz. the taxes for turnover and coal, that the tax for turnover in the amount of 2 % charges every exchange of goods with 8 %, if the commodities from raw material to manufactured goods only pass as an average through 4 hands (the consumption of luxurygoods is charged with even higher amounts), and that the coal-tax of 40 % must naturally be added to the price of manufactures proceeding out of every industrial process of manufacturing. After the same English source from the revenue has to be paid by:

	in Germany	France	England
a bachelor with a labourincome of 20 000 M (= 4000 Fr. = 90 £)	8,8 %	3,25 %	0
man and wife with 2 children and with a labourincome of 250 000 marks (= 50 000 Fr. = 1125 £)	25,2 %	7,8 %	16,3 %
a bachelor with a rent of 250 000 marks (= 50 000 Fr. = 1125 £)	31,7 %	14,2 %	23,4 %
the same with a rent of 10 000 000 marks (= 2 000 000 Fr. = 45 000 £)	61,1 %	59,7 %	54,7 %.

These calculations are based upon a rate of 1 Fr. = 5 M, 1 £ = 220 M; meanwhile the purchasing power has fallen again

again to 1 Fr. = 25 M, 1 £ = 1200 M, and consequently the per-cent charge of taxes of German revenues has become essentially heavier. It need not be mentioned, that all such parallels between direct and indirect impositions of taxes in different countries relating to the average incomes of people liable to pay taxes of course can not claim to be scientifically blameless, essentially for the reason, that the average-income can not be ascertained with absolute trustworthiness. It may also be admitted, that some indirect taxes and customs in Germany have still lower rates than in other countries - so e.g. spirits and sugar are heavier charged in England and France, than in Germany. But one will always be lead wrong, to compare the charge with consumption-taxes for themselves, if you at the same time do not consider, that the revenue also of the lowest classes in Germany is charged heavily with direct taxes, while that is not the case with the broad masses in France and England, and that besides the consumption power of the German population has considerably diminished; a low revenue out of consumption-taxes per head does not prove a lower charge of taxes in an impoverished country like Germany, but even more a slackened consumption power. It has however nowhere been considered, what means a disastrous indirect tax like the continuously growing inflation of papermoney.

The statement of a fixed budget for the Reich naturally, for a longer period to come, is made perfectly impossible by the fluctuations of the exchanges, which could not be restrained, and the devaluation of the Mark.

For

For it is technically impracticable, to increase the receipts in all items of the budget at the same speed, as the expenditure increase, because, as already mentioned above, the growing enhancement of prices, a consequence of the continually decreasing purchasing power of the mark, continually moves the total base of Germany's national economy. Duties on mercantile transactions and traffic taxes, customs and consumption-duties are more movable and partly automatically get hold of the inflation of the amounts of mark, liable to paying the taxes; also the institutions of the Reich, especially Post and Railways, allow a more shifting tariff-policy. It must however be considered, that a mechanical rise of tariff-rates, customs etc. mathematically corresponding the devaluation of the papermark at home or abroad, not sufficiently regarding the special condition of the object for the assessment, does in no means warrant equal amounts of gold for the receipts of the Reich; so for instance the large rise of tariffs with the post and railways has had as a consequence a considerable reduction of traffic. The taxes on property which are a chief source of revenue for the Reich, can practically not be adapted so quickly to the devaluation of the money, because the dislocations connected with the devaluation of money in the state of income and property of the different classes of population take place in way wholly different from one another. Therefore a change in the amount of property taxes fixed for the mass of liable tax-payers must every time be preceded by a new assessment for taxation, what merely on the technical

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nical side would meet the greatest difficulties regarding the necessary expenses for the new officials, if this would be repeated at short intervals.

The budget for the running financial year proposed to the Reichstag in April a.c. in a revised form is shown by figures in Annex II. The budget items, as I subsequently may adduce from the mentioned article of the Dr. Schröder, show the following for judging the financial condition of the Reich:

"The administrations for traffic (i.e. Post, Railways etc.) cover their running expenses out of own revenues; but for renovation and suppletion of constructions they need an amount of loan of 19 442 millions marks. The amount at first may seem high. But, taking the devaluation of money and the rise of all prices into consideration, it is lower, than the normal needs for management before the war (17,7 % of total expenses against 31,1 % in 1913). The amount appears even smaller, considering the great deterioration of the constructions by the war. It has been given up as a principle to build new railway lines. It is really to be doubted, if it is possible to get 19 442 millions by way of a longterm loan already in 1922.

The receipts of the general administration of the Reich in the ordinary budget exceed the expenses with 16 500 millions marks. The expenses of 90 000 millions contain 29 000 millions marks for the debt service and 22 000 millions marks for transfers to the countries and communes. To the countries portions of the new Reichs-taxes are assigned, belonging to them as a compensation for the great taxes taken away from them and which they need for payment of the most urgent expenses. For pensions and maintenance of relicts of sol-

diers

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diers further 10 800 millions marks have to be spent. The resting amount of about 28 000 millions marks serves as a payment for the running expenses for all the branches of administration of the Reich. In 1913 2 100 millions marks were paid for these purposes. If you take into consideration, that the general dearth, the rising of the prices of all materials and the cost for the standard of life for the functionaries as an average has arrived to the 25 fold at least, the calculation of 28 000 millions marks, equalling to an expense of 1100 millions goldmarks, proves an economical management.

The needs for loans for the extraordinary budget of the general administration amounts to 3110 millions marks. They have essentially been provoked by the consequences of the war and must in the following years disappear or be reduced to a low sum.

The excess of the ordinary budget of the general administration amounting to 16 500 millions marks shall be used for carrying out the peacetreaty. But only to a small degree it can cover the necessary expenses for the same. And here we come to the source of the whole misery of the German finances. The expenses for the peacetreaty have to a considerable part to be paid in foreign values. They are therefore immediately dependent on the rate of the mark. The 720 millions goldmarks fixed at Cannes for 1922 require 34 400 millions papermarks, the dollar rate being 200 marks; 51 400 millions papermarks, the rate of the dollar being 300 marks. For the payment of this burden the measures of taxation do not suffice. Even if it was possible to rise the proceeds from taxes so that the amount wanted for the moment could be covered wholly that would not mean a real covering,

covering, as long as the balance of payment of Germany's national economy is not compensated. Because by taxes we only get papermarks, for the payments however foreign currencies must be procured. If the excess of export of the German economy is not large enough, to put the foreign currencies at the disposal of the Reich against papermarks, the Reich can only buy foreign currencies abroad. The means of payment of the Reich are again the papermarks. According to the principle of supply and demand this obligation to throw papermarks on the market in order to change them for foreign bills must continually act as a further pressure on the mark exchange."

The constantly increasing amounts of papermarks generally deceive people, that notwithstanding an apparent abundance of money and an apparent wealthiness, an impoverishment on the greatest scale has taken place in Germany. Experts have calculated, that the German national property as a whole, before the war amounting to more than 300 ^{000 millions} ~~milliards~~ goldmarks, has since undergone a reduction to less than the half of the previous amount. In lieu of the deposits amounting to 30 - 35 milliards (30 000 - 35 000 millions) goldmarks before the war with the German banking institutions, actually there is to be found an amount of something like 200 milliards papermarks, representing a value in goldmark of about 3 milliards marks. This fargoing impoverishment of Germany, shown on the hand of such items, must be kept in mind when judging the taxes payed hitherto and the reparation payments wrought from Germany, in order to understand the tremendous efforts, having really been made up to now on the

part

part of Germany in order to fulfill the assumed liabilities; occasional mistakes in the financial measures are, of course, admitted.

Special difficulties have arisen for the financial department by the flight of German capital from taxation also mentioned in your letter. All possible measures have been undertaken by the German Government to counteract it. Notwithstanding serious doubts Germany has suspended the banksecrecy and has introduced the obligation for depositing securities with banks; further the transfer of balances, means of payment and securities abroad has to be announced to the financial authorities, that is, the board of assessment has a control over the moving capital and its transactions with foreign countries, as far as measures from the German side are efficacious enough; the sub-annex IV of the joined memorandum of the Reichskanzler gives special explanations about it. Besides there has been concluded an agreement with Tschechoslovakia about reciprocal legal protection and redress concerning taxation affaires. It was Germany's endeavour during the Genoa conference to give the legal protection an international character; the proposition has by the financial commission in Genoa been passed to the league of nations, while the commission itself stood on the standpoint, that the liberty of the exchange-market and the bank-secrecy ought not to be injured. The mentioned measures of the government have, adapted to Germany, naturally only limited effects and can, if not supported by the neighbouring countries, only be insufficient. More-

over

over the flight abroad of capital liable to taxes is common to all countries charged with impaired currency and high taxes. It also seems to me, that the flight of capital from Germany abroad is exceedingly overtaxed. As far as the flight of capital takes the form of proceeds of exports left abroad and not put at the disposal of Germany's national economy, it is confined to very narrow limits⁴ because the control of exports and the duty of delivering foreign bills on a large scale get hold of the accumulating proceeds of exports.

The flight of German capital abroad essentially is but one side of the fact called the "Flucht aus der Mark" (flight from the mark), stimulated with every new fall of the mark exchange; the other more important side, remarked by you, is the panic purchasing of goods of every kind and also the hoarding of foreign currencies. Both facts are resulting from the inconsistency of the value of the papermark and the shifting changes between the purchasing power of the mark abroad and at home. The shifting changes according to the extent of the fluctuations keep the German economic life under a feverish up and down of quickly changing conjunctures and are the reason of temporarily to be observed excesses of selling out. At the same time by means of the fluctuations of the foreign- and inland-value of the mark we see the deplorable process of Germany's impoverishment going on.

With the false splendour from the inflation with its increasing numbers of nominal value this process threatens also the German productive capital. In many cases enterprises

enterprises show fictitious profits, because incomes from deliveries of kind in papermarks are booked as profits, though they do not cover the corresponding sale of kind according to its gold-value, so that by and by the proceeds do not any longer suffice to ascertain the original supply of capital for business purposes. To a greater extent the considerably enhanced providing of capital for the industrial and commercial enterprises is to be taken as an absolutely necessary filling up of the original business property; the joint stock companies, and the other companies of shareholders with limited liability (Aktien-gesellschaften, Kommanditgesellschaften auf Aktien und Gesellschaften mit beschränkter Haftung) in Germany claimed in 1921 for fresh establishments 5 947 millions papermarks, while for the increase of capital were claimed 22 772 millions papermarks (in 1920 the figures were 1808 millions and 8947 millions).

The need of capital for enterprises is partly covered by shorttermed bankcredits, partly by participating outsiders, also foreigners, but especially by issuing stock and bonds, or both combined, will say, preferred shares bearing fixed interest.

It is obvious, that during a period of desultory money devaluation the juridical form of the joint stock company is preferred because of its greater movableness on the money-market. The admissibility of the money- and capital-market of course was especially large for stocks not only as a consequence of the lasting abundance of money, but also in connection with the mentioned efforts

to

to purchase physical property or shares of such. Consequently the getting of capital in commerce and industry by means of stocks is predominant; and in 1921 the issue of dividend values amounted to 21 712 millions papermarks, the issue of bonds bearing fixed interest to 5 415 millions papermarks. In such times, when the banks must be very cautious with granting longtermed credits, smaller firms being more or less dependent upon bank credit, often are pushed aside by the large enterprises, having immediate connection with the capitalmarket by means of issuing stocks and bonds. Such a development necessarily leads to a changement of private firms to joint stock companies, to fusions of undertakings and to joining with rich enterprises of the same or a related branch of business. The continuing changements of German private enterprises into joint stock companies and the fusions of enterprises thus are a natural consequence of the changed economic conditions. Besides it must be considered, that Germany has lost very valuable districts of economic excess, which also was the reason for a fargoing reversing of some industries (only in the West there were lost 75 % of the output of ironore, 9 % of the output of coal, 23 % of the German flattening-mills, 31 % of the blastfurnaces, 20 % of the textile industry; in Upper-Silesia among others had to be abandoned 77,5 % of the ~~whole~~ ^{Siberian} output of coals, all the ironore mines with an output of 61 000 tons a year, 22 blastfurnaces out of 37 in all; further 77 % of the output of lead-ore and 86 % of the output of zinc-ore, that will say 75 % of the

the

the whole German output of zinc-ore). Similar reversings were necessary with numerous enterprises by the liquidation of establishments, participations and rights abroad.

It is in the following forms, that industrial fusions chiefly take place: companies, connected with one another on the base of interests, increase their capital and exchange the new amounts of stocks reciprocally. With the absorption of joint stock companies the same measure of increasing the capital is mostly adapted, in order to satisfy the shareholders of the absorbed company by fresh issued stocks. In Germany rarely one chooses to get hold of an enterprise by means of purchasing the majority of stocks at the stock exchange, while the entering of foreign capital into the economy of Germany more often goes this way. But also without such financial transactions relations between companies are installed by placing representatives of one firm in the board of directors or the administration of the other.

As for the large capitalists whose financing methods you wanted to be informed about, the development is in some regards different. They themselves issue neither stocks, nor bonds, but are used to take up a bank-credit at first, if their current means do not suffice for purchasing a business or for participating in a such, a credit which as a rule, judging their special trustworthiness, is without any difficulty to be got and which they in a normal way will repay out of profits or with the liquidation of former investments. If they have a deciding influence in an enterprise they have the possibility to

make

make the enterprise to claim to the money market directly by issue of shares or bonds or by performing other transactions as above mentioned, in order to procure new means.

Occasionally the financing operation is performed in the way, that a chief shareholder induces the company influenced by him to raise the capital by issuing stocks, giving him a profit by his purchasing the new shares at a very low rate. The chief shareholder then, as far as it does not interfere with his influence in the enterprise, can partly realise the profit he has received by the cheap purchase by selling the new stocks at the stock exchange in order to invest the profit in new enterprises. Naturally such profits are due to taxation, though the real value of the invested capital as a rule has not essentially changed by such transactions; because if, for instance, an enterprise representing a gold value, weakens its capital by issuing new stocks too cheaply, not providing it with corresponding fresh means of production, the shares of this enterprise left in the hand of the capitalist loose in value, and if also the shareholder uses the realised profit for purchasing other gold-values, he mostly by such operations only fills up his property in gold-values to the original amount. If a large capitalist joins all shares of an enterprise in his hand (e.g. the stocks of the Friedrich Krupp joint stock company are held by Mrs. Krupp v. Bohlen und Halbach and the shares of the mining-company of the Thyssen-concern are in the possession of the mining-industrial August Thyssen) he will not procure new means by issuing shares, being herewith oblig-

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ed to accept other shareholders into his business, but he will issue bonds.

The energies in the economic life of Germany inducing to perform ^{those} fusions essentially result out of the obligation to keep the productive apparatus in a possible good state of health just as in such a period of fluctuating crises in business and money affairs, during which all affairs relating to valuation and production have turned topsy-turvey. But the partly accumulated capital employed in business, however high the amount may be in papermarks, must be reduced to their gold-value if one desires to estimate their real signification; because the German base of production has, as already mentioned, undergone a severe restriction. It is natural, that the wealthiest enterprises hereby have got ahead of the weaker ones; partly this natural preponderance of the leading enterprises results from the fact of their possessing coal, around which ^{the} industries of semimanufactured and manufactured goods widely are spread. Nevertheless the tendency of the German people do not as a general ^{and in continued custom} rule/aim at changing their bank-balances and their cash into goods, though it temporarily was the case in a panic sort of way, and especially as for the large capitalist it remains in certain limits. The balances with the banks and saving-banks are growing continually, and the increased rates of shares - the increasing of the quotations had been caused not only by the devaluation of money and the purchases by foreigners, but temporarily also by that above mentioned tendency of getting hold of physical property -

erty - have in the meantime considerably been reduced and every slight improvement of the mark lowers the quotations. So it is evident, that the market is not lacking for securities. The reports you have received, saying that those of very large means are acquiring industrial and similar shares to such extent, that the whole production in Germany seems to be concentrated into comparatively few hands, show a perfect lack of practical knowledge on the subject. It can not be spoken of such a dimension of ^{these} purchases of physical property, and the danger of such a concentration is not nearly existing. On the contrary as a consequence of the devaluation of the mark in recent times many a large industrial enterprise and concern feels so much the lack of capital, that they are forced partly to sell the shares of other enterprises being in their hands.

I already mentioned above, that the capacity for paying taxes of the commercial and industrial enterprises in Germany is very highly strained. And I fear, that the direct taxes are overstrained already, as the German economy as a whole continually consumes the substance of its productive power; unfortunately the profits in papermarks resulting from the devaluation are apt to veil these real losses to a superficial critic. The more the nation is in danger to succumb under the exceeding burden, the more its view is troubled about the limits really existing in the working-energy of Germany's national economy. The collecting of the heavy taxes prescribed by the German taxation system, and the compulsory loan (Zwangsanleihe) decided

cided upon will lead to a want of capital very soon to be perceived, followed immediately by a going down of the actually existing activity in business, in case another fall of the mark with its false profits does not give a new turn to the market.

I want to sum up my opinion in the fact, that reducing the tremendous economic and financial burden of the peacetreaty to a bearable measure is the indispensable condition to consolidate Germany's economy, that is to say, a measure, that can be afforded by Germany without continually destroying her economic capacity (because actually is existing a real insolvency of Germany as a consequence of the reparation liabilities). This condition alone would make it possible for Germany to take up sufficient credits abroad in order to get raw materials, which the industry needs for the extension of its production in order to compensate the passivity of the German balance of payment by increased production and expanded export, by restraining at the same time the import to the utmost and in order to balance the expenditure of the Reich with regular receipts, and hereby to prevent an increase of the floating debt, which could be funded successfully by sufficient internal loans. The German exchange then automatically would be brought to a level corresponding to the weakened position of Germany's national economy compared with that before the war. Having arrived to such an invariable level it could be legalized by a devaluation and the German currency again could be brought on a metallic base, which can, of course, only be that of gold.

According

According to Germany's situation the Reichsbank-Direktorium did not feel able to refuse the discounting of the treasury certificates offered by the Reich - however sharply it may condemn the increase of the floating debt in its effects to an increase of the circulation of bank-notes. It had to act in this way understanding, that the Reich until now had no other way open, than by taking up floating debts, in order to cover the expenses not to be covered by ordinary receipts, and to a great part connected with the peacetreaty. A suspension of payment would paralyse the whole administration of the Reich and would lead to an anarchic state of things, which would have as a consequence the ruin of the German national economy and the perfect devaluation of the mark, with all the consequences also for the international trade. In fact, as you yourself express, if the German budget cannot be brought into balance, there is simply the choice between further emissions of bank-notes, issues of paper-money directly by the Reich, or suspension of payments.

I hope to have answered the questions put by you and to have illustrated the problems mentioned in your letter, but I still add to your further information about our money and exchange situation three memorandums, composed in the Reichsbank on "^{circulation of money in}Germany currency", "^{note}Central- and Issuing-banks" and "Exchange-Questions".

Annex D

As I am not sure, that the English translation of my letter exactly meets the meaning of the German text, I also join it.

I should be very much pleased to meet you soon

at

at the conference for Central Banks in London, it being then possible for me to give you further information by talking it over with you.

With the assurance of my esteem I beg to remain

Yours sincerely

J. Romberg

Der Präsident
des
Reichsbank-Direktoriums.

Berlin SW. 19, den 31. Mai 1922.

Nr. 7 geh.

In der Antwort ist die Angabe
vorstehender Nummer erwünscht.

Privat und vertraulich.

Sehr geehrter Herr Gouverneur!

Für Ihr freundliches Schreiben vom 14.
April d. Js., das ich am 28. April erhielt, beehre
ich mich, Ihnen meinen aufrichtigen Dank auszu-
sprechen. Ich bin Ihnen besonders dankbar dafür,
daß Sie mir mit voller Offenheit persönlich und
vertraulich geschrieben haben, und ich werde Ih-
nen ebenso offen und freimütig auf die von Ihnen
gestellten Fragen antworten.

Zu meiner großen Freude entnehme ich aus
Ihren Ausführungen, daß Sie persönlich die in Ge-
mäßheit der bisherigen Zahlungspläne dem deutschen
Volke auferlegten Leistungen für zu weitgehend er-
achten. Auf Grund sorgfältigster Prüfung und genau-
ester Kenntnis der deutschen Verhältnisse kann ich
die Richtigkeit dieser Auffassung unbedingt be-
stätigen. Das, was Deutschland an Barzahlungen
und an Sachleistungen aufbringen soll, geht in der
Tat über seine finanzielle und wirtschaftliche
Leistungsfähigkeit hinaus.

Diese Leistungsfähigkeit hängt in der

An

Hauptsache

den Gouverneur der Federal
Reserve Bank of New York
Mr. Benjamin Strong

in

New York.

Hauptsache von dem Stande der deutschen Zahlungsbilanz ab. Wie Ihnen vielleicht bekannt geworden ist, hat der Vizepräsident der Reichsbank, Herr Dr. v. Glasenapp, in der ersten Wiederaufbaunummer des Manchester Guardian Commercial vom 20. v. Mts. die deutsche Zahlungsbilanz einer Erörterung unterzogen, deren Ausführungen und Ergebnisse sich mit meinen Anschauungen und Überzeugungen vollkommen decken. Ich möchte daher auf den Artikel Bezug nehmen, den ich in photographischer Nachbildung beizulegen mir erlaube. Die in dem Artikel gegebenen Ziffern über die deutsche (sichtbare) Handelsbilanz enden mit Abschluß des abgelaufenen Jahres, weil zur Zeit der Abfassung des Artikels neuere Angaben noch nicht zur Verfügung standen. Inzwischen sind die Ziffern für das erste Tertial des Jahres 1922 statistisch festgestellt; sie ergeben in Millionen Goldmark für den

Anlage A

	Januar	Februar	März	April
einen Import von	282,4	245,9	338,4	407,6
" Export "	321,6	296,7	323,4	330,8
mithin einen Exportüberschuß von	39,2	Export- überschuß 40,8	Import- überschuß 15,0	76,8

Wenn die ersten beiden Monate eine Aktivität der Warenbilanz nachweisen, so ist dies auf die Abnahme des Imports, insbesondere darauf zurückzuführen, daß die schon zu Ende des Vorjahres stark rückgängige Einfuhr notwendiger Lebensmittel in den ersten beiden Monaten des Jahres 1922 noch weiter zurückgedrängt werden mußte. Die Monate März und April zeigen dann aber ein erhebliches Anschwellen des Imports, da ohne starke Beeinträchtigung der Lebenshaltung und damit der Produktivität der deutschen Bevölkerung auf eine ausreichende Lebensmitteleinfuhr nicht länger verzichtet werden konnte.

Die Folge war eine passive Warenbilanz für diese Monate, welche die in dem Artikel zum Ausdruck gebrachte Auffassung bestätigt, daß eine Aktivität der Warenbilanz für den Jahresdurchschnitt nicht zu erhoffen steht. Sogenannte unsichtbare Exporte, welche die Passivität der Warenbilanz auszugleichen vermöchten, stehen Deutschland in größerem Umfange nicht zur Verfügung, und soweit sie vorhanden sind - Ankauf deutscher Grundstücke, Unternehmungen, Aktien durch das Ausland - mindern sie die Substanz des deutschen Volksvermögens und vermehren die deutsche Verschuldung an das Ausland; nur der Reiseverkehr der Ausländer in Deutschland bringt einen mäßigen Aktivposten, der aber im günstigsten Fall nur auf wenige hundert Millionen Goldmark veranschlagt werden kann. Vielmehr hat Deutschland, wie der Artikel des näheren ausführt, zwecks Verzinsung und Amortisation der im Ausland aufgenommenen Kredite jährlich rund 750 Millionen Goldmark aufzubringen und infolge des Verlustes fast der gesamten Handelsflotte sehr hohe Beträge für ausländische Seefrachten zu zahlen; dazu treten die gewaltigen Zahlungsverpflichtungen auf Grund des Friedensvertrages, die Besatzungskosten, die Zahlungen im Ausgleichsverfahren und vor allem die Reparationsbarzahlungen und Sachleistungen. An sogenannten internen (d.h. in Papiermark zu leistenden) Besatzungskosten mußten bis Ende März 1922 rund 14 000 Millionen Mark gezahlt werden. Welchen Betrag die weit höheren externen (d.h. die in Goldmark zu leistenden) Besatzungskosten erreichen, steht in Ermangelung einer vollständigen Abrechnung noch nicht genau fest, Die deutsche Regierung hat sie bis Ende März 1922 auf rund 5 500 Millionen Goldmark veranschlagt. Die von der Entente - Zeitungsnachrichten zufolge - beschlossene Herabsetzung

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zung der Besatzungskosten auf insgesamt 240 Millionen Goldmark jährlich ist bisher noch nicht praktisch geworden. Im Ausgleichsverfahren waren bis Ende 1921 468 Millionen Goldmark aufzubringen, bis Ende April 1922 wird die Summe insgesamt etwa 550 Millionen Goldmark erreicht haben.

An Reparationszahlungen sind durch das sogenannte Londoner Ultimatum Deutschland jährlich 2000 Millionen Goldmark als feste und außerdem 26% der gesamten deutschen Ausfuhr als variable Leistung auferlegt. Bei einer damals auf 5000 Millionen Goldmark geschätzten Gesamtausfuhr würde sich hiernach eine jährliche Gesamtleistung von $2000 + 1300 = 3300$ Millionen Goldmark ergeben. Bereits im Jahre 1921 erwies sich die Unmöglichkeit, diese Gesamtleistung aufzubringen, und erwies sich zugleich, daß schon der Versuch, sie aufzubringen, die schwerwiegendsten wirtschaftlichen Folgen nicht nur für Deutschland selbst, sondern auch für die mit Deutschland in Verkehrsbeziehungen stehenden Länder zur Folge haben mußte. Mit Rücksicht hierauf wurde dann in Cannes beschlossen, diese Gesamtleistung vorläufig nur in Höhe von 720 Millionen Goldmark bar und von 1450 Millionen Goldmark in Sachleistungen einzufordern.

Um die Bedeutung dieser Zahlen für Deutschlands Zahlungskraft ins rechte Licht zu setzen, möchte ich ihnen zwei andere Ziffern gegenüberstellen:

Vor dem Kriege betrug das Aktivsaldo der gesamten Zahlungsbilanz Deutschlands, das damals die Rohstoffe liefernden Kolonien, die landwirtschaftliche Produkte liefernden Provinzen Posen und Westpreußen, eine große Handelsflotte, viele Milliarden (Goldmark) ausländischer Wertpapiere, viele Milliarden deutschen

Privat-

Privateigentums in den Ländern seiner Kriegsgegner, die Industrieunternehmen und reichen Erz- und Kohlenlager in Lothringen, an der Saar und in Oberschlesien pp. besaß und in seinem Handel unbeschränkt war - ca. 700 - 800 Mill. Mark (Goldmark). Heute sind alle diese Werte, mit deren Hilfe es Auslandsschulden bezahlen könnte, ihm genommen; die gleichwohl von ihm geforderte jährliche Reparationsleistung aber beträgt das 5 - 3fache jenes gesamten früheren Aktivosaldos.

Ferner: Die Kriegsschuld Englands an die Vereinigten Staaten beträgt etwa 4500 Millionen \$, die Frankreichs ca. 3500 Millionen \$. Die Jahresleistung daraus würde - zu $4\frac{1}{2}$ % berechnet - ca. 800 und 640 Mill. Goldmark betragen, also nur einen Bruchteil ($\frac{1}{5}$ - $\frac{1}{3}$) der von Deutschland geforderten Last. Beide Länder haben sich aber in den vergangenen drei Jahren und Frankreich noch heute für unfähig erklärt, diese Last zu tragen.

Es liegt auf der Hand, daß die deutsche Volkswirtschaft die ihr hiernach zur Last fallenden Beträge an Zinsen, an Zahlungen im Ausgleichsverfahren, an Besatzungskosten und an Reparationsleistungen, die sich - unter Zugrundelegung der ermäßigten Reparationsziffern von Cannes und der oben erwähnten Minderung der Besatzungskosten, die wohl beabsichtigt aber noch nicht verwirklicht ist - insgesamt auf mindestens 3500 Millionen Goldmark jährlich belaufen, auch nur entfernt aufzubringen außerstande ist. Aufgebracht werden können derartige Schuldsummen endgültig nur im Wege eines Exportüberschusses. Dies ist im Laufe der Verhandlungen in Genua allseitig anerkannt worden. In der einstimmig beschlossenen Introduction des Rapports der Finanzexperten-Kommission der Genua-Konferenz heißt es wörtlich:

"Foreign obligation by one country must be balanced

lanced by a capacity in other countries to absorb the surplus production with which alone those obligations can be met. *If* the burden of any country's external obligations is beyond its capacity to pay, and it cannot be assisted by foreign loans, the effort to meet those obligations must accordingly result on the one hand in dislocation of markets in other countries, and on the other hand in a continuous depreciation of the currency of the debtor country, which will entirely prevent it from making any start whatever in the direction of stabilisation."

In der Tat hat Deutschland angesichts seiner nicht aktiven Handelsbilanz und bei der Geringfügigkeit sogenannter unsichtbarer Exporte die von ihm geleisteten großen Zahlungen an das Ausland nur aufzubringen vermocht, indem es Kredite aufnahm, deutsche Wertpapiere oder andere Teile des deutschen Volksvermögens veräußerte oder Mark verkaufte. Daß insbesondere der unausgesetzte Verkauf von Mark den Kurs der Mark mehr und mehr entwerten mußte, ist klar, und daß für die Zukunft diese Entwertung sich in immer stärkerem Maße fortsetzen muß, wenn nicht die Deutschland aufgezwungene Bürde auf ein tragbares Maß herabgemindert wird, leuchtet ohne weiteres ein. Schließlich müßte die deutsche Mark im Auslande unverkäuflich werden, und damit wäre der vollkommene Zusammenbruch der deutschen Volkswirtschaft besiegelt.

Diese Entwicklung kann auch durch eine noch so geschickte und noch so gesunde Finanz- und Währungspolitik der deutschen Regierung nicht abgewendet werden. Denn auch die äußerste Anspannung der Steuerleistung des deutschen Volkes kann doch immer nur Beträge in Papiermark

papermark einbringen, deren Umwandlung in Devisen zum Zwecke der Zahlungen an das Ausland sich allein durch fort und fort gesteigerten Verkauf von Papermark bewirken ließe. Dieser unausgesetzte Verkauf muß, wie oben ausgeführt, fortschreitend die Mark entwerten und damit den in Papermark aufzubringenden Betrag immer wieder aufs neue erhöhen. Gewiß pflichte ich Ihnen darin bei, daß die deutsche Regierung die Fähigkeit, Reparationszahlungen zu leisten, zu beeinflussen vermag, je nachdem sie gesunde oder ungesunde Finanz- und Währungsmaßnahmen ergreift. Indes steht es leider außer Zweifel, daß gegenüber den die Deutsche Zahlungsbilanz und den Reichshaushalt gleicherweise erdrückenden Reparationsverpflichtungen der drohende Zusammenbruch auch durch die zweckmäßigsten Maßnahmen auf dem Gebiete der Finanz-, insbesondere der Steuer- und der Währungspolitik nicht verhindert werden kann.

Was die Ausgestaltung des deutschen Steuer-systems und die Reform der deutschen Reichsfinanzen anlangt, so beziehe ich mich auf die der Reparationskommission mit Schreiben des Reichskanzlers vom 28. Januar d.Js. gegebenen Aufschlüsse, die ich mit allen Anlagen in einem Abdruck beifüge; einige der darin in Anlage II gegebenen Ziffern, die inzwischen überholt sind und bereits berichtigt werden konnten, habe ich berichtigen lassen. Die Ausführungen geben eine Vorstellung von den außerordentlich großen Schwierigkeiten, mit denen die Umstellung des gesamten Steuersystems auf die Erhebung einer den ins Riesenhafte gewachsenen Lasten einigermaßen nachkommenden Einnahme notwendig verknüpft war. Die Steuererhebung hatte bis zum Ausgang des Krieges in den Händen der Bundesstaaten des Reichs gelegen, deren Finanzverwaltungen nach völlig verschiedenen

Anlage B

Grund-

Grundsätzen arbeiteten. Gegenüber dem großen Schuldendienst des Reiches mußte die Finanzreform in Deutschland damit beginnen, zwecks Gleichmäßigkeit der Besteuerung die Finanzverwaltung zu vereinheitlichen und auf das Reich zu übernehmen. Man war sich dessen bewußt, daß die Schnelligkeit der Erhebung der beschlossenen Steuern unter dieser Umstellung und dem Ausbau der Verwaltung vorübergehend leiden würde. Diese Schwierigkeiten mußten aber wohl in Kauf genommen werden, wenn überhaupt ein Ausweg aus der finanziellen Wirrnis gefunden werden sollte. Außerdem möchte ich darauf hinweisen, daß längere Zeit hindurch auf den Reichsfinanzen sehr erhebliche unproduktive Ausgaben - für Erwerbslosenunterstützung, Lebensmittelzuschüsse u. dergl. - lasteten, die notwendig waren, um nach dem militärischen Zusammenbruch des Reichs ein Abgleiten der breiten Massen der Bevölkerung in die radikalsten politischen Richtungen zu verhindern und eine soziale Auflösung von Deutschland abzuwenden.

Die Finanzreform begann mit einem kräftigen Erfassen der im Kriege gewachsenen oder entstandenen Vermögen durch Erhebung außerordentlicher Kriegsabgaben vom Vermögen sowie mit einem einmaligen großen Opfer vom Vermögen, dem "Reichsnotopfer". Daneben wurde zu einer allgemeinen z.T. sehr rigorösen Erhöhung der laufenden Steuern und zur Einführung einer großen Zahl neuer Steuern geschritten. Die Anlage I der beiliegenden Denkschrift des Reichskanzlers vom 28. Januar d. Js. geht auf den Ausbau des deutschen Steuersystems näher ein. Über das Ergebnis, das diese Steuern bisher gebracht haben, und über ihren weiteren Ausbau in den letzten Monaten gestatte ich mir, einem demnächst in einer Wiederaufbaunummer des "Manchester Guardian" erscheinenden

scheinenden Aufsatz des Staatssekretärs/^{Herrn}Dr. Schröder einige Ausführungen zu entnehmen:

"Die Wirkungen der Finanzreform zeigen sich deutlich in den tatsächlichen Einnahmen des Reiches seit 1919. Sie betragen:

im Jahre 1919	10.543 Millionen M
" " 1920	50.801 " "
" " 1921	87.374 " "

(Die Einnahmen während des Rechnungsjahres 1921 sind in der beigefügten Übersicht des Reichsfinanzministeriums spezialisiert).

Anlage C

Die Steigerung der deutschen Steuerbelastung ist hiernach offenbar. Sie wird dem Zusammenwirken von direkten und indirekten Steuern verdankt, die für die Belastung eines Volkes nur in ihrer Gesamtheit betrachtet werden dürfen. Sie hätte voll ausgereicht, die Staatsbedürfnisse zu befriedigen, wenn nicht der ständige Fall der deutschen Währung die Ausgaben des Reiches dauernd hätte wachsen lassen. Die Sachverständigen der Alliierten haben auf der Brüsseler Konferenz des Jahres 1920 zum Ausdruck gebracht, daß in Deutschland "die gegenwärtigen Tarife für die direkten Steuern bis auf das Höchstmaß gesteigert worden zu sein schienen, und daß man vielleicht sogar, wenn die Veranlagung wieder in Ordnung sei und die Steuern vollen Ertrag brächten, zu der Feststellung kommen würde, daß im Interesse des fiskalischen Ergebnisses, welches mit dem wirtschaftlichen Wohlstande Deutschlands eng verbunden sei, eine Ermäßigung gewisser direkter Steuern zu erwägen sei, besonders derjenigen, die auf Handel und Industrie lasteten. Dennoch hat Deutschland sich bereits im Jahre 1921 zu einer weiteren Anspannung der steuerlichen Leistungen entschlossen. Die Steuergesetze, die Ende

März

März/Anfang April 1922 vom Reichstag in dritter Lesung angenommen worden sind, erhöhen die Sätze der Körperschaftssteuern für Erwerbsgesellschaften auf etwa 35 %. Sie führen eine laufende Vermögenssteuer ein, die bis zu 1 % jährlich ansteigt und zu der auf die Dauer von 15 Jahren Zuschläge bis zu 200 % erhoben werden, die an die Stelle eines noch nicht erhobenen Teiles des Reichsnotopfers treten. Die bisherige Besitzsteuer wird durch eine erhöhte Vermögenszuwachssteuer mit Sätzen bis zu 10 % ersetzt. Der Besitz wird weiter dadurch belastet, daß eine Reihe von Stempelsteuern (auf die Errichtung der Gesellschaften, auf die Börsenumsätze, die Emission von Wertpapieren) in einem Kapitalverkehrssteuergesetz durch selbständige Steuern mit höheren Sätzen ausgebaut sind. Die Steuern auf Kraftfahrzeuge, die Versicherungssteuern und die Rennwettsteuern sind gleichfalls erhöht. Vor allem aber ist der Satz der allgemeinen Umsatzsteuer auf 2 % heraufgesetzt. Die Belastung der gesamten Produktion und des gesamten Verbrauchs ist dadurch verschärft, daß die Kohlensteuer von 20 % auf 40 % des Kohlenpreises erhöht worden ist. Auch die auf der Goldbasis festgelegten Zölle sind in ihren Sätzen beträchtlich gesteigert, unter ihnen namentlich die Zölle auf Gegenstände des Luxusverbrauchs. Welche Bedeutung die Zollerhöhung für die Wirtschaft notwendig hat, ergibt sich aus der Feststellung, daß der Goldaufschlag zurzeit 5900 % des Zollsatzes beträgt. Die Sätze der meisten inneren Verbrauchsabgaben sind von neuem zum Teil auf ein Vielfaches des bis dahin geltenden Satzes erhöht. Auch die Hektolitereinnahme beim Branntweinmonopol ist um ein Mehrfaches heraufgesetzt."

Die oben wiedergegebene schnelle Steigerung
der

der Reichseinnahmen seit 1919 muß zum Teil natürlich auch auf die fortschreitende Entwertung der Papiermark zurückgeführt werden. Im übrigen ist in Betracht zu ziehen, daß es eine längere Zeit dauert - der belgische Minister Theunis bemißt die Frist auf 2 - 3 Jahre -, bis die Veranlagung und die Erhebung einer neuen Steuer reibungslos funktioniert. Jedenfalls ist, wie ich nach meinem Einblick in die Verhältnisse bestimmt versichern kann, der gelegentlich gegen Deutschland erhobene Vorwurf, es führe seine Steuergesetze nicht wirklich durch, unberechtigt. Der Behauptung, die Steuerbelastung in Deutschland bleibe hinter der in den Siegerstaaten zurück, wird in der Unteranlage 2 der beigelegten Denkschrift des Reichskanzlers begegnet. Untersuchungen, die neuerdings auf englischer Seite angestellt sind, gelangten zu der Feststellung, daß sowohl die indirekten als die direkten Steuern in Deutschland weit härter sind als in Frankreich und England. Die "Daily News" vom 2. März d. Js. konstatiert von den beiden größten indirekten Steuern Deutschlands, von der Umsatz- und der Kohlensteuer, daß die Umsatzsteuer in Höhe von 2 %, wenn die Ware vom Rohstoff bis zum Fertigfabrikat durchschnittlich nur durch 4 Hände geht, jeden Warenaustausch mit 8 % besteuert (der Luxusverbrauch wird mit noch wesentlich höheren Sätzen belastet), und daß die Kohlensteuer von 40 % ebenfalls in jedem industriellen Weiterverarbeitungsprozeß zusätzlich auf den Preis der Fabrikate umgelegt wird. Vom Einkommen hat nach der gleichen englischen Quelle zu zahlen

in

	in Deutschland	Frankreich	England
ein Junggeselle mit Arbeits- einkommen von 20 000 M (= 4000 Fr. = 90 £)	8,8 %	3,25 %	0
ein Mann mit Frau u. 2 Kindern mit Arbeitseinkommen von 250 000 M (= 50 000 Fr = 1125 £)	25,2 %	7,8 %	16,3 %
ein Junggeselle mit Rentenein- kommen von 250 000 M (= 50 000 Fr. = 1125 £)	31,7 %	14,2 %	23,4 %
desgleichen mit Rentenein- kommen von 10 000 000 M (= 2 000 000 Fr. = 45 000 £)	61,1 %	59,7 %	54,7 %

Diesen Berechnungen ist ein Kursstand von 1 Fr. = 5 M, 1 £ = 220 M zugrunde gelegt; inzwischen ist die Kaufkraft weiter auf 1 Fr. = 25 M, 1 £ = 1200 M gesunken, und demgemäß ist die prozentuale Steuerbelastung der deutschen Einkommen noch wesentlich schwerer geworden. Es erübrigt sich wohl, darauf hinzuweisen, daß alle derartigen Vergleiche der direkten und indirekten Steuerbelastung in verschiedenen Ländern im Verhältnis zum Durchschnittseinkommen der Steuerpflichtigen natürlich nicht den Anspruch erheben können, wissenschaftlich einwandfrei aufgestellt zu sein, im wesentlichen aus dem Grunde, weil das Durchschnittseinkommen nicht absolut zuverlässig zu ermitteln ist. Es kann auch zugegeben werden, daß einzelne indirekte Steuern und Zölle in Deutschland noch hinter den Sätzen anderer Länder zurückbleiben - so sind z. B. Spirituosen und Zucker in England und Frankreich stärker belastet als in Deutschland. Jedoch dürfte es stets irreführend sein, die Belastung mit Verbrauchssteuern für sich allein

allein in Vergleich zu stellen, wenn nicht zugleich berücksichtigt wird, daß in Deutschland das Einkommen auch der untersten Schichten durch direkte Steuern stark belastet ist, während in Frankreich und England die breiten Massen der Bevölkerung wenig oder gar nicht mit direkten Steuern belegt sind, und daß außerdem in Deutschland die Konsumkraft der Bevölkerung erheblich gemindert ist; ein geringes Aufkommen aus Verbrauchsabgaben auf den Kopf der Bevölkerung beweist bei einem verarmten Lande wie Deutschland nicht sowohl eine geringere steuerliche Belastung, als vielmehr eine geschwächte Konsumfähigkeit. Welche vernichtende indirekte Steuer zudem in der fortschreitenden Papiergeldinflation liegt, wird übrigens an keiner Stelle berücksichtigt.

Die bisher nicht einzudämmen gewesenen Kursschwankungen und die Entwertung der Mark machen naturgemäß die Aufstellung eines festen Reichshaushaltsplanes für einen längeren Zeitraum völlig unmöglich. Denn es ist technisch unausführbar, die Einnahmen in allen Etatspositionen unmittelbar in dem gleichen Tempo zu steigern, in welchem die Ausgaben zunehmen; da, wie schon oben bemerkt, die aus der ständig abnehmenden Kaufkraft der Mark sich ergebende wachsende Verteuerung fortwährend die gesamte Grundlage der deutschen Volkswirtschaft verschiebt. Umsatz- und Verkehrssteuern, Zölle und Verbrauchsabgaben sind beweglicher und erfassen zum Teil die Aufblähung der Markbeträge, von denen die Abgabe erhoben wird, automatisch; auch die Reichsbetriebe, insbesondere die Post und die Eisenbahnen, gestatten eine beweglichere

lichere Tarifpolitik. Indessen ist zu beachten, daß ein mechanisches, der Entwertung der Papiermark im Inlande oder Auslande rechnerisch entsprechendes Erhöhen der Tarifsätze, Zölle usw., das die besondere Lage der betreffenden Veranlagungsobjekte nicht genügend berücksichtigt, keineswegs gleichbleibende Goldmarkbeträge für die Reichseinnahme garantiert; so haben z.B. die starken Tarifierhöhungen bei Post und Eisenbahn eine ganz erhebliche Einschränkung des Verkehrs nach sich gezogen. Bei den Besitzsteuern, die eine Haupteinnahmequelle des Reiches bilden, ist eine derartige schnellere Anpassung an die Geldentwertung praktisch nicht durchführbar, weil die mit der Geldentwertung zusammenhängenden Verschiebungen im Einkommens- und Vermögensstande der einzelnen Bevölkerungsschichten sich gänzlich abweichend voneinander vollziehen. Deshalb wird einer Änderung der für das Gros der Steuerpflichtigen veranlagten Besitzsteuerbeträge jedesmal eine neue Veranlagung zur Steuer vorhergehen müssen, die bei dem erforderlichen Aufwand an Steuerpersonal rein technisch auf die größten Schwierigkeiten stoßen würde, wenn sie sich in kurzen Zeiträumen wiederholen müßte.

Der dem Reichstag im April d. Js. vorgelegte überarbeitete Haushaltsplan für das laufende Rechnungsjahr ist in der Anlage 2 ziffernmäßig dargestellt. Aus den Budgetzahlen ergibt sich, wie ich weiterhin dem oben erwähnten Artikel des Herrn Dr. Schröder entnehmen darf, für die Beurteilung der Finanzlage des Reichs folgendes:

"Die Betriebsverwaltungen (Post- Eisenbahn pp.) decken aus eigenen Einnahmen ihre laufenden Ausgaben;
sie

sie haben aber für Erneuerung und Ergänzung der Anlagen einen Anleihebedarf von 19.442 Millionen M. Der Betrag erscheint zunächst hoch. Er ist aber, wenn man die Entwertung des Geldes und die Steigerung aller Preise berücksichtigt, niedriger als der normale Bedarf der Betriebe vor dem Kriege (17,7 % der gesamten Betriebsausgaben gegen 31,1 % im Jahre 1913). Die Zahl erscheint noch geringer, wenn man die starke Abnutzung der Anlagen durch den Krieg bedenkt. Auf den Bau neuer Bahnstrecken hat man grundsätzlich verzichtet. Ob es allerdings gelingen wird, die erforderlichen 19.442 Millionen M im Wege einer langfristigen Anleihe schon im Jahre 1922 zu beschaffen, muß bezweifelt werden.

Die Einnahmen der allgemeinen Reichsverwaltung übersteigen im ordentlichen Haushalt die Ausgaben um 16 500 Millionen M. In den Ausgaben von 90 000 Millionen M sind 29 000 Millionen M für den Schuldendienst und 22 000 Millionen M für Überweisungen an die Länder und Gemeinden enthalten. Den Ländern werden Anteile an den neuen Reichssteuern überwiesen, die ihnen als Ersatz für die ihnen genommenen großen Steuern zustehen und die sie zur Bestreitung ihrer dringendsten Ausgaben benötigen. Für Pensionen und Versorgung der Hinterbliebenen der Kriegsteilnehmer sind ferner 10 800 Millionen M aufzuwenden. Aus dem Rest von rund 28 000 Millionen M werden die laufenden Ausgaben aller Verwaltungszweige des Reiches bestritten. Im Jahre 1913 wurden für diese Zwecke 2 100 Millionen M ausgegeben. Stellt man in Rechnung, daß die allgemeine Teuerung, die Steigerung der Preise aller Materialien und die Kosten der Lebenshaltung der Angestellten im Durchschnitt mindestens das 25fache erreicht hat, so beweist der Ansatz von 28 000 Millionen M, der einem Ausgabenposten von 1 100 Millionen

Goldmark .

Goldmark gleichkommt, daß sparsam gewirtschaftet wird.

Der Anleihebedarf des außerordentlichen Haushalts der allgemeinen Verwaltung beträgt 3 110 Millionen M. Er ist im wesentlichen durch die Nachwirkungen des Krieges hervorgerufen und muß in den folgenden Jahren verschwinden oder doch auf eine nur geringfügige Summe herabgedrückt werden.

Der Überschuß des ordentlichen Haushalts der allgemeinen Verwaltung mit 16 500 Millionen M soll zur Durchführung des Friedensvertrages verwendet werden. Er kann aber die hierfür erforderlichen Ausgaben nur zu einem ganz kleinen Teile decken. Mit dieser Feststellung kommen wir zur Quelle des ganzen Elends der deutschen Finanzen. Die auf dem Friedensvertrage beruhenden Ausgaben sind zum erheblichen Teil in fremder Valuta zu leisten. Sie sind deshalb unmittelbar abhängig vom Kurse der Mark. Die 720 Millionen Goldmark, die für das Jahr 1922 in Cannes festgesetzt sind, erfordern bei einem Dollarkurse von 200 M 34 400 Millionen Papiermark, bei einem Dollarkurse von 300 M 51 400 Millionen Papiermark. Zur Abbürdung dieser Last genügen die Mittel der Steuergesetzgebung nicht. Selbst wenn es möglich wäre, die Steuererträge so zu erhöhen, daß der im Augenblick erforderliche Bedarf an Papiermark insgesamt gedeckt wäre, so würde das doch noch keine wahre Deckung bedeuten, solange die Zahlungsbilanz der deutschen Volkswirtschaft nicht ausgeglichen ist. Denn Steuern erbringen nur Papiermark, für die Zahlungen müssen aber Devisen beschafft werden. Ist der Ausfuhrüberschuß der deutschen Wirtschaft nicht so groß, daß die Devisen dem Reiche gegen Papiermark zur Verfügung gestellt werden können, so bleibt dem Reiche nur die Möglichkeit, Devisen

sen im Auslande anzukaufen. Das Zahlungsmittel des Reiches ist wieder die Papiermark. Nach dem Grundsatz von Angebot und Nachfrage muß dieser Zwang, Papiermark auf den Markt zu werfen, um Devisen dafür einzutauschen, den Kurs der Mark stetig weiter drücken".

Die ständig anschwellenden Papiermarkziffern pflegen darüber hinwegzutäuschen, daß trotz scheinbarer Geldflüssigkeit und scheinbarem Reichtum eine Verarmung größten Umfanges in Deutschland eingetreten ist. Von sachkundiger Seite ist berechnet worden, daß das gesamte deutsche Volksvermögen, das vor dem Kriege etwas über 300 Milliarden Goldmark betrug, seitdem eine Verminderung auf weniger als die Hälfte erfahren hat. Den fremden Geldern in Höhe von 30 bis 35 Milliarden Goldmark, die vor dem Kriege in den deutschen Geldinstituten vorhanden waren, steht gegenwärtig ein Bestand von schätzungsweise 200 Milliarden Papiermark gegenüber, der einen Goldmarkwert von etwa 3 Milliarden Mark darstellt. An dieser weitgehenden Verarmung Deutschlands, die sich in solchen Ziffern offenbart, müssen die bisherigen Steuerleistungen und die aus Deutschland herausgeholtten Reparationsleistungen gemessen werden, um zu erkennen, welche ungeheuren Anstrengungen tatsächlich von deutscher Seite zur Erfüllung der übernommenen Verpflichtungen bis zur Stunde gemacht worden sind; gelegentliche Fehlgriffe in den deutschen Finanzmaßnahmen mögen dabei zugegeben werden.

Besondere Schwierigkeiten hat der deutschen Finanzverwaltung die auch in Ihrem Schreiben berührte Steuerflucht des deutschen Kapitals bereitet. Ihr entgegenzuwirken, sind seitens der deutschen Regierung alle erdenklichen

denklichen Schritte unternommen worden. Deutschland hat trotz schweren entgegenstehenden Bedenken das Bankgeheimnis aufgehoben und den Depotzwang für Wertpapiere eingeführt; ferner ist die Übertragung von Guthaben, Zahlungsmitteln und Wertpapieren nach dem Auslande den Finanzbehörden anzumelden, die Steuerbehörde übt also eine Kontrolle des mobilen Kapitals und seiner Bewegungen im Verkehr mit dem Auslande aus, soweit Maßnahmen von deutscher Seite hierzu ausreichen; die Unteranlage 4 der beiliegenden Denkschrift des Reichskanzlers gibt hierüber im einzelnen Aufschluß. Mit der Tschechoslowakei ist außerdem ein Vertrag über gegenseitigen Rechtsschutz und Rechtshilfe in Steuersachen abgeschlossen worden. Deutschland hat auf der Konferenz zu Genua angestrebt, eine derartige Rechtshilfe international zu gestalten; der Vorschlag ist seitens der Genueser Finanzkommission dem Völkerbund überwiesen worden, während die Kommission selbst den Standpunkt einnahm, daß die Freiheit des Wechselmarktes nicht unterbunden und das Bankgeheimnis nicht verletzt werden dürfe.

Die

Die erwähnten Regierungsmaßnahmen haben in der Beschränkung auf Deutschland natürlich nur begrenzte Wirkungen und können, solange sie nicht auch von den Nachbarstaaten unterstützt werden, immer nur ungenügend sein. Im Übrigen ist die Abwanderung von steuerpflichtigem Kapital nach dem Auslande heute allen Ländern mit niedergehender Valuta und hohen Steuern gemeinsam. Ich möchte auch annehmen, daß die deutschen Kapitalabflüsse nach dem Auslande beträchtlich überschätzt werden. Soweit die Kapitalflucht sich in die Form kleiden mag, daß Exporterlöse im Auslande belassen und der deutschen Volkswirtschaft nicht zur Verfügung gestellt werden, sind ihr an sich sehr enge Grenzen gezogen, denn Ausfuhrkontrolle und Devisenablieferungspflicht erfassen die aufkommenden Exporterlöse in weitestem Ausmass.

Die Flucht deutschen Kapitals nach dem Auslande ist im wesentlichen nur eine Seite der als "Flucht aus der Mark" bezeichneten Erscheinung, die durch jeden weiteren Kurssturz der Markvaluta neu belebt wird; die andere, noch bedeutungsvollere Seite ist das von Ihnen bemerkte manchmal panikartig auftretende Erwerben von Sachwerten aller Art sowie die Devisenhamsteri. Beides sind Erscheinungen, die mit der Wertunbeständigkeit der deutschen Papierwährung und den wechselnden Differenzen zwischen der Kaufkraft der Mark im Auslande und im Inlande zusammenhängen. Die wechselnden Differenzen halten bei der Größe der Schwankungen die deutsche Wirtschaft unter einem oft fieberhaften Auf- und Abschwellen schnell wechselnder Konjunkturen und bilden auch die Ursache der zeitweilig zu beobachtenden Ausverkaufsexzesse. Dabei vollzieht sich im Wechselspiel der Schwankungen

kungen

kungen zwischen Außen- und Binnenwert der Mark der traurige Prozeß der Verarmung Deutschlands.

Unter dem Scheinglanz, den die Inflation mit ihren wachsenden Nennwertziffern ausbreitet, bringt dieser Prozeß auch das deutsche Produktionskapital in Gefahr. In vielen Fällen weisen Unternehmungen Scheingewinne aus, indem Einnahmen aus Sachleistungen in Papiermark als Gewinne verbucht werden, obwohl sie den entsprechenden Abgang an Sachgütern ihrem Goldwerte nach nicht decken, so daß die Erträge allmählich nicht mehr ausreichen, um die ursprüngliche Ausstattung des Betriebes mit Kapital sicherzustellen. Zum größeren Teil ist die erheblich gesteigerte Kapitalbeschaffung der deutschen Industrie- und Handelsunternehmungen als eine unbedingt notwendig gewordene Auffüllung des ursprünglichen Betriebsvermögens anzusehen; die Aktiengesellschaften, Kommanditgesellschaften auf Aktien und Gesellschaften mit beschränkter Haftung in Deutschland beanspruchten im Jahre 1921 für Neugründungen 5 947 Millionen Papiermark, während für Kapitalerhöhungen demgegenüber 22 772 Millionen Papiermark gefordert wurden (im Jahre 1920 hatten die Ziffern 1 808 Millionen und 8 947 Millionen betragen).

Der Kapitalbedarf der Unternehmungen findet Deckung teils in kurzfristigen Bankkrediten, teils in der Kapitalbeteiligung Außenstehender, auch des Auslandes, sonst vornehmlich in der Begebung von Aktien und Obligationen oder in einer Verbindung von beiden Formen, nämlich von Vorzugsaktien mit fester Verzinsung.

Es liegt auf der Hand, daß während einer Periode sprunghafter Geldentwertung die Rechtsform der Aktiengesellschaft

gesellschaft wegen der freieren Beweglichkeit am Finanzmarkt bevorzugt wird. Die Aufnahmefähigkeit des Geld- und Kapitalmarktes war denn auch gerade für Aktien nicht nur infolge der anhaltenden Geldflüssigkeit, sondern auch im Zusammenhang mit dem erörterten Bestreben, Sachwerte bzw. Anteile an Sachwerten zu erwerben, besonders groß. Dementsprechend überwiegt die Kapitalbeschaffung in Handel und Industrie durch Aktien; so belief sich im Jahre 1921 die Emission von Dividendenpapieren auf 21 712 Millionen Papiermark, die Emission festverzinslicher Werte auf 5 415 Millionen Papiermark. Mittlere und kleinere Firmen, die mehr oder minder auf den Bankkredit angewiesen sind, geraten in solcher Zeit, da die Banken mit langfristiger Kreditgewährung zurückhalten müssen, vielfach vor den großen Unternehmungen, die durch Ausgabe von Aktien und Obligationen unmittelbar an den Kapitalmarkt herantreten können, ins Hintertreffen. Eine derartige Entwicklung führt zwangsläufig zur Umwandlung von Einzelfirmen in die Form der Aktiengesellschaft, zu Verschmelzungen von Firmen so wie zur Anlehnung und zum Anschluß an kapitalkräftigere Unternehmungen des gleichen oder eines verwandten Geschäftszweiges. Die fortgesetzten Umgründungen deutscher Privatbetriebe in Aktienunternehmungen und die Zusammenschlüsse von Unternehmungen sind also eine natürliche Folge der veränderten wirtschaftlichen Verhältnisse. Es ist zudem zu berücksichtigen, daß Deutschland sehr wertvolle Überschußgebiete eingebüßt hat, was ebenfalls zu einer starken Umstellung einiger Industriekreise zwang (im Westen gingen allein verloren 75% der Eisenerzförderung Deutschlands, 9% der Steinkohlenförderung,

kohlenförderung,

kohlenförderung, 23% der deutschen Eisenwalzwerke, 31% der Hochofenwerke, 20% der Textilindustrie; von Oberschlesien mußten u. a. abgetreten werden 77,5% der dortigen Gesamtkohlenförderung, sämtliche Eisenerzgruben mit 61 000 t jährlicher Erzeugung, von insgesamt 37 Hochöfen 22,

ferner, 77% der Bleierzförderung und 86% Zinkerzförderung, d. h. 75% der gesamten Zinkerzförderung Deutschlands). Gleiche Umstellungen wurden bei zahlreichen Unternehmungen durch die Liquidation von Anlagen, Beteiligungen und Rechten im Auslande notwendig.

Die Formen, in denen sich industrielle Konzentrationen in der Hauptsache vollziehen, sind folgende: Gesellschaften, die in Interessengemeinschaft miteinander treten, erhöhen ihr Kapital und tauschen die neuen Aktienbeträge gegenseitig aus. Bei Aufsaugung von Aktienunternehmungen wird ebenfalls meist der Weg über eine Kapitalerhöhung beschritten, um mit Hilfe der neu geschaffenen Aktien die Aktionäre des zu übernehmenden Instituts abzufinden. Der Weg, daß die Herrschaft über ein Unternehmen durch den Erwerb der Aktienmajorität am Börsenmarkt erreicht wird, wird von deutscher Seite seltener gewählt, während sich das Eindringen des ausländischen Kapitals in die deutsche Wirtschaft öfter in dieser Weise abspielt. Indessen werden auch ohne solche Finanztransaktionen Verbindungen von Gesellschaften beschlossen, indem Stellen im Aufsichtsrat oder in der Verwaltung des einen Unternehmens mit Vertretern des andern besetzt werden.

In mancher Beziehung anders stellt sich die Entwicklung hinsichtlich der Großkapitalisten, über deren

deren Finanzierungsmethoden Sie informiert zu werden wünschen. Sie geben selbst weder Aktien noch Obligationen aus, sondern pflegen, wenn ihre vorhandenen flüssigen Mittel für den Erwerb eines Unternehmens oder für eine Beteiligung an einem Unternehmen nicht hinreichen, zunächst Bankkredit in Anspruch zu nehmen, der ihnen in der Regel angesichts ihrer besonderen Kreditwürdigkeit unschwer zugänglich ist und den sie normalerweise aus aufkommenden Gewinnen oder aus der Liquidation früherer Kapitalanlagen abtragen werden. Besitzen sie den ausschlaggebenden Einfluß an einem Unternehmen, so haben sie die Möglichkeit, das Unternehmen selbst zwecks Beschaffung neuer Mittel durch Ausgabe von Aktien oder Obligationen direkt an den Geldmarkt herantreten oder die sonstigen oben erwähnten Transaktionen vornehmen zu lassen. Die Finanzierung nimmt hierbei gelegentlich die Form an, daß ein Großaktionär die von ihm beeinflusste Gesellschaft zu einer Kapitalerhöhung durch Ausgabe von Aktien veranlaßt, die ihm bei Übernahme der neuen Aktien durch einen niedrig bemessenen Bezugskurs einen Gewinn zuwendet. Der Großaktionär kann alsdann, soweit es ohne Beeinträchtigung seines Einflusses auf das Unternehmen möglich ist, den ihm mit dem billigen Bezugsrecht zugewendeten Gewinn durch Veräußerung von bezogenen neuen Aktien an der Börse teilweise realisieren, um den Gewinnbetrag zu neuen Beteiligungen zu verwenden. Selbstverständlich werden derartige Gewinne steuerlich erfaßt, obwohl sich der materielle Wert des angelegten Vermögens trotz solcher Transaktion in der Regel nicht wesentlich

wesentlich verändert hat; denn wenn z.B. ein Unternehmen, das einen Goldwert darstellt, sein Kapital durch zu billige Ausgabe neuer Aktien, die ihm nicht entsprechende neue Produktionsmittel zuführt, verwässert, so entwerten sich die in der Hand des Kapitalisten verbliebenen Anteile an diesem Unternehmen, und wenn der Aktionär auch den realisierten Gewinnbetrag zum Erwerb anderer Goldwerte benutzt, so füllt er meistens durch solche Operationen im besten Fall nur seinen Goldwertbesitz auf die ursprüngliche Höhe wieder auf.

Vereinigt ein Großkapitalist sämtliche Geschäftsanteile eines Unternehmens in seiner Hand (z.B. befinden sich die Aktien der Friedr. Krupp A.-G. in den Händen der Frau Krupp v. Bohlen und Halbach und die Anteile der Gewerkschaften des Thyssen-Konzerns im Besitz des Montanindustriellen August Thyssen), so wird er die Beschaffung neuer Mittel nicht durch Aktienausgabe, wobei er fremde Teilhaber in sein Institut aufnehmen mußte, bewirken, sondern er wird zur Auflegung einer Obligationsanleihe schreiten.

Die Kräfte im deutschen Wirtschaftsleben, die zu der zu beobachtenden Zusammenfassung von Unternehmen drängen, resultieren im wesentlichen aus dem Zwang, in einer Zeit wechselnder, alle Bewertungs- und Produktionsverhältnisse aus der Bahn werfender Währungs- und Geschäftskrisen den Produktionsapparat nach Möglichkeit gesund zu erhalten. Die hierbei zum Teil zusammengehäuften Betriebskapitalien, so hoch sie auch in Papiermark beziffert werden mögen, müssen jedoch auf ihren Goldwert zurückgerechnet werden, wenn man ihre wirkliche

Bedeutung

Bedeutung richtig einschätzen will; denn die deutsche Produktionsbasis selbst hat ja, wie erwähnt, eine einschneidende Verengerung erfahren. Daß die kapitalkräftigsten Unternehmungen bei diesem Konzentrationsprozeß den weniger starken Unternehmungen den Rang ablaufen, liegt in der Natur der Sache begründet; zum Teil baut sich dies natürliche Schwergewicht führender Unternehmungen auf dem Besitz der Kohle auf, um den sich die Weiterverarbeitungs- und Fertigindustrie in weitgehender Verästelung gruppiert.

Immerhin ist das Bestreben der deutschen Bevölkerung, ihre Bankguthaben und ihr Bargeld in Sachgüter umzuwandeln, wenn es auch zeitweise fast panikartig aufgetreten ist, keineswegs allgemein und andauernd, und insbesondere bei den Großkapitalisten hält es sich in mäßigen Grenzen. Die Guthaben bei den Banken und Sparkassen wachsen fortgesetzt, und die Steigerung der Aktienkurse, die nicht nur durch die Geldentwertung und den Ankauf durch Ausländer, sondern zeitweise auch durch jenes Bestreben, Sachwerte zu erwerben, stark in die Höhe getrieben waren, ist inzwischen einem erheblichen Rückgang gewichen, und jede leise Besserung der Mark drückt ihre Kurse tiefer. Das zeigt, dass an Aktienmaterial^{am Markte} kein Mangel ist. Die Ihnen zugegangenen Berichte, wonach Grosskapitalisten, industrielle und sonstige Beteiligungen in einem Ausmaße erwerben, daß eine Konzentration der gesamten Produktionsmittel in Deutschland in verhältnismäßig wenigen Händen vorzuliegen scheint, beruhen auf völliger Verkennung der Dinge. Von einem solchen Umfange dieser Ankäufe von Sachgütern ist keine Rede, und die Gefahr einer solchen Konzentration

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tion liegt auch nicht im entferntesten vor. Infolge der Entwertung der Mark wird in neuerer Zeit gerade manchen grossen Industrieunternehmen und -konzernen das Betriebskapital so knapp, daß sie sich gezwungen sehen, die in ihrem Besitz befindlichen Beteiligungen an andern Unternehmungen (Aktien pp.) zum Teil wieder abzustoßen.

Ich wies bereits oben darauf hin, dass die Steuerkraft der Handels- und Industrieunternehmungen in Deutschland ausserordentlich stark angespannt ist. Ich fürchte, dass die direkten Steuern bereits erheblich überspannt sind, da die deutsche Wirtschaft als Ganzes fortgesetzt an der Substanz ihres Produktionsvermögens zehrt; die lediglich aus der Geldentwertung entspringenden Papiermarkgewinne sind leider geeignet, einer oberflächlichen Betrachtung diese realen Verluste zu verschleiern. Je mehr der Staat in Gefahr gerät, der ihm aufgebürdeten Überlast zu erliegen, umsomehr wird sein Blick für die nun einmal vorhandenen Grenzen der Leistungsfähigkeit des deutschen Wirtschaftskörpers getrübt. Die Einziehung der im Ausbau des deutschen Steuersystems durchgeführten schweren Steuern, sowie der beschlossenen Zwangsanleihe wird zu einem sehr bald fühlbaren Kapitalmangel führen, dem ein Rückgang der zurzeit vorhandenen geschäftlichen Lebhaftigkeit auf dem Fuße folgen muss, falls nicht etwa ein weiterer Sturz der Mark mit seinen Scheingewinnen eine neue Konjunkturwelle auslösen sollte.

Ich möchte mein Urteil dahin zusammenfassen, daß die unerlässliche Voraussetzung für eine Konsolidierung der deutschen Wirtschaft die Zurückführung der auf dem Friedensvertrag beruhenden enormen wirtschaftlichen und finanziellen Belastung auf ein tragbares Maß bildet, d. h. auf ein Maß, das von Deutschland ohne fortschreitende

Zerstörung

Zerstörung seiner wirtschaftlichen Leistungsfähigkeit aufgebracht werden kann, (denn gegenwärtig besteht infolge der Reparationsverpflichtungen in Wahrheit eine Zahlungsunfähigkeit Deutschlands). Diese Voraussetzung allein würde Deutschland die Möglichkeit eröffnen können, im Auslande ausreichende Kredite aufzunehmen zwecks Beschaffung der Rohstoffe, deren die deutsche Industrie zur Erweiterung ihrer Produktion bedarf, die Passivität der deutschen Zahlungsbilanz durch vermehrte Produktion und erweiterten Export bei möglichster Einschränkung des Imports auszugleichen sowie die Ausgaben des Reichs durch ordentliche Einnahmen zu balanzieren und damit einer Zunahme der schwebenden Schuld vorzubeugen, die durch ausreichende innere Anleihen mit Erfolg fundiert werden könnte. Die deutsche Valuta würde sich alsdann von selbst auf ein Niveau einstellen, das dem gegenüber der Vorkriegszeit geschwächten Stande der deutschen Volkswirtschaft entspräche. Wäre ein solches gleichbleibendes Niveau erreicht, so könnte es durch eine Devaluation legalisiert und die deutsche Währung von neuem auf eine metallische Grundlage, die nur das Gold sein kann, gestellt werden.

Nach Lage der deutschen Verhältnisse hat es das Reichsbank-Direktorium - so sehr es die Vermehrung der schwebenden Schuld des Reichs in ihrer Wirkung auf eine Steigerung des Banknotenumlaufs hin verurteilt - nicht vermocht, die Diskontierung der vom Reich angebotenen Schatzanweisungen abzulehnen. Es musste so handeln in der Erkenntnis, daß dem Reich zur Deckung der durch ordentliche Einnahmen nicht zu bgleichenden, größtenteils mit den Friedensbedingungen zusammenhängenden Ausgaben ein anderer Weg als die Aufnahme schwebender Schulden bisher

nicht

nicht offen stand. Eine Zahlungseinstellung des Reichs würde die gesamte Reichsverwaltung lahmlegen und anarchische Zustände herbeiführen, die den Ruin der deutschen Volkswirtschaft und die völlige Entwertung der Mark mit ihren auch den internationalen Verkehr berührenden Folgen nach sich ziehen müsste. Tatsächlich besteht, wie Sie es selbst aussprechen, in dem Falle, daß Deutschland nicht in die Lage versetzt wird, das Budget des Reichs zum Ausgleich zu bringen, keine andere Wahl als die zwischen der weiteren Emission von Banknoten, der Ausgabe von Staatspapiergeld oder der Zahlungseinstellung des Reichs.

Ich hoffe, in den vorstehenden Ausführungen die von Ihnen berührten Fragen beantwortet und die beregten Probleme beleuchtet zu haben, lege Ihnen aber auch zur weiteren Information über unsere Geld- und Währungsverhältnisse noch drei in der Reichsbank ausgearbeitete Denkschriften über "Den Geldumlauf in Deutschland", "Zentral- und Emissionsbanken" und "Valutafragen" bei, mit englischem Text. Da ich nicht sicher bin, ob die hier angefertigte englische Übersetzung dieses Schreibens überall genau den Sinn trifft, füge ich auch die deutsche Fassung dieses Schreibens bei.

Sehr erfreut wäre ich, wenn ich Sie auf der Konferenz der Zentralbanken in London demnächst begrüßen könnte, um Ihnen in mündlicher Aussprache weitere Aufschlüsse zu geben.

Mit der Versicherung meiner vorzüglichen Hochachtung bin ich

Ihr
sehr ergebener

Hamm

OFFICE CORRESPONDENCE

DATE July 10, 1922

TO Governor Strong

SUBJECT: Havenstein's Memo.

FROM Mr. Snyder

Two things seem to me to stand out in this letter:

(1) The first is an old one, and that is the reiterated insistence upon Germany's incapacity to pay in cash any such sum as two or three milliards of gold marks, with the camouflaged implication that it could not pay this amount at all, whereas this sum would not exceed 5 or 6 per cent. of the total of Germany's pre-war national income, which was around 40 to 50 billion gold marks.

But it does still remain a very wide open question as to whether Germany could pay this amount plus the taxes to meet her very heavy governmental expenditures. I do not know what is the taxable limit on a nation's product--Sir Josiah Stamp considers it in his recent book on the subject, and imagines that it may be much higher than most students of the subject have believed.

(2) The second is the last part, and that is the curious evasion of the fact that it is the increase in currency and not the increase in the floating debt that is responsible directly for the fall in the mark; and with this a justification of the Reichsbank's course. Of course if they could only stop the fresh issues of currency, then and then alone would it be possible to balance the budgets (and to float internal loans.) The people of Germany are not going to subscribe to a huge loan in a currency that is continually depreciating under their eyes.

If continuous inflation had not, as we fear, become now a part of the game, though it may not have been so originally, this letter would make me think that there was small hope for Germany's salvation under its present governing powers.

PRIVATE AND CONFIDENTIAL

October 2, 1922.

Dear Mr. President:

You must not believe from not having heard from me before this that I am at all lacking in appreciation of your letter of May 31, and the most interesting and important information which you were good enough to send me with it. More than once I have undertaken to start a reply, but conditions abroad have been so kaleidoscopic, and the change has been so rapid from time to time, that I have not felt that it was possible to send you any intelligent comment upon what you have sent me, because it would be out of date before it reached you. This has been especially true during the last sixty days.

You were good enough to adopt my suggestion in sending me an English translation of your letter. I felt rather guilty in having made the suggestion when I became aware of the labor which it had imposed upon you, and as we now have excellent facilities for making translations of that character, permit me to withdraw the request and allow me to relieve you hereafter of this burden.

It had been my hope and expectation to attend the meeting of central banks to be held in London sometime this fall, and to have the pleasure of meeting you there. Various developments, of which you are informed, have resulted in postponing this meeting so that there seems to be no likelihood of my making a trip abroad until next year - possibly early in the year. This in part explains my delay in writing you, as I was in almost daily expectation of the receipt of advice that the meeting would be held, and of answering your kind letter in person.

Oct 2, 1922.

Will you be good enough to accept this letter as an acknowledgment of your own, and of my very warm appreciation of it, and the assurance that at an early date I am hoping to write to you in somewhat similar fashion as to conditions in this country, and something of our public opinion in regard to matters which are transpiring abroad. It will, I hope, take the place of the conversation which we might otherwise have had in London, or if not there in Germany.

With my personal good wishes, and assurance of my esteem, believe me,

Faithfully yours,

Benj. Strong,
Governor.

Rudolph Havenstein, Esq.,
President, The Reichsbank,
Berlin, Germany.

BS.MM

Reichsbank-Direktorium.

Berlin SW. 19, den May 25/30th 1923.

Nr. 13252

In der Antwort ist die Angabe vorstehender Nummer erwünscht.

RECEIVED
JUN 27 1923
FEDERAL RESERVE BANK

Dear Sir,

The good and confidential commercial relations existing between the Federal Reserve Bank and the Reichsbank, encourage us to communicate to you some events that, in connexion with the occupation of the Ruhr District by France and Belgium, recently happened, and that not only injure the Reichsbank severely but also affect, according to our opinion, the North American issuing banks, considering the solidarity of interests of all Central Note Banks.

Since February 19th of this year bank notes which we, in order to supply the occupied districts with means of payment, forwarded from Berlin through other places of the unoccupied country to the occupied district or from certain places of the occupied district to others of same, been seized by the French and Belgian troops of occupation:

The seizure took place, as enclosure details, partly during the transport, partly within the banks themselves. The seizure was forced in the Reichsbankstellen at Aachen and Duisburg the 19th of February and 1st of May by way of violently taking away from the
daily

enclosure 1^t

Mr. Strong,

Governor of the Federal Reserve Bank,

New York.

daily cash. At Coblenz, however, on the 17th of May invaded French police officials, accompanied by some locksmiths, the Reichsbankstalle, and broke up, after they had removed the officials, a wall-up window of the safe. The iron grates, which the window had been further secured with, was cut by them by aid of oxygen apparatuses. They then entered the safe and took from it 12 bags, which contained - according to the own statement of the French - 6000 millions mark. An act of violation against the property of the Reichsbank of much greater gravity, has taken place on 26 of May.

On that day, early in the morning at about a quarter past eight o'clock French troops and officials invaded by surprise the building of the Reichsbank in Essen. They possessed themselves, with the assistance of a member of the staff of the "Banque de France", of the Safe which had just been opened in order to supply the daily requirements of the cashiers, and took from the Safe all the money amounting to about 92.000 millions Mark.

The magnitude of this sum explains itself by the fact that the wages of the very numerous workingmen in Essen and in the district of the Ruhr require an extraordinarily large amount of cash.

The "Mining Union" (Bergbaulicher Verein) in Essen informs us that the requirements for wages of the whole district of the Ruhr on the pay-day at the close of May come up to, in round figures, 102 milliards Mark. For Essen alone are being required every ten days about 50.000 millions Mark for this purpose. It is evident that the seizure of the money of the Reichsbank has created a situation which renders it extremely difficult,

even

even perhaps impossible to pay the workmen, and which would by necessity lead to heavy disturbances and must largely favor the plans and the intrigues of the communists. It is only too obvious that the communism, should it spread in Germany, and perhaps get the sway, would not stop on the German borders.

By this way the Reichsbank - an autonomous central note institute which is, as generally known, founded only on private capital and independent from the Government - has been as yet violently deprived of no less than 127.186.750.000 mark in total. It is a matter of course, that in front of such seizures, the sufficient supply with means of payment, indispensably necessary in the economical interest of the occupied districts in all their parts, will be rendered more difficult to the utmost. In order to carry through, for all that, as far as possible, this supply, we were compelled to determine on engaging in greater measure also printing offices within the occupied districts, for the purpose of the making of Reichsbank-notes. Thus we have - first of all - at Mulheim on Ruhr, by communication of the large Berlin printing house of W. Buxenstein, made an agreement with the printing firm of E. Marks, in fulfillment of which this printing house is bound to print forms, to be used as notes of the Reichsbank, and then to deliver to same. Those forms are, after that, being examined and, unless objections have to be made, acknowledged, accepted and put into circulation by the Reichsbank. By this they acquire the character of notes of the Reichsbank and simultaneously also the quality of a legal tender. Now, on April 6th, as points out the copy enclosed of an exhibit, directed by us to our Foreign Office, have

French

enclosure 2nd

enclosure 3rd

French troops of occupation invaded the printing office of E. Marks. They seized: the printing plates, the sheets, not yet completely printed, the sheets, already printed but not yet cut into forms as well as the already finished bank note forms, and took them away. The printing plates have been - with exception of one piece - the not fully printed sheets, except 41 double sheets, given back. However, these 41 double sheets as well as the fully printed, but not yet cut sheets, and the already finished forms have not been returned. The fully printed note sheets and the note forms amount in all to a nominal value of 1365 millions mark. The receipt, given by the French troops of occupation, a copy of which is enclosed in this letter, shows evidently, that a priori the intention prevailed, to issue those pieces as genuine ones. It can, of course, not be the question of genuine notes in this case. On the contrary, the illegitimate cutting into pieces of the fully printed sheets represents an act of forgery. The putting into circulation of pieces, after cutting them as well as of those forms which were found already cutted in the printing house, is tantamount to the issue of counterfeit paper money. For, these pieces do not have the quality of legal notes; they were at the time, they have been taken hold of, nothing more than a production of the printing house, a mere property of it. It seemed incredibly to us that the French Government really might attempt to put into circulation this counterfeit paper money. However, for greater security, the Reichsbank has, at all events, published the announcement, copied in our letter to the Foreign Office, warning the public to accept those illegitimate notes.

Now,

Now, in Cologne, has - as a matter of fact - the Banque Belge tendered to the Reichsbankhauptstelle such illegitimate notes, amounting to 400 millions mark, requesting her, to credit this amount to the transfer account (Giro-Konto). The credit, however, according to our instruction, has been refused, and the pieces, delivered, have been cancelled by way of perforation. As far as we understand, similar attempts have been made elsewhere too with bank houses in Cologne and Wiesbaden.

On April 17th appeared Belgian officers in the Reichsbankstelle at Duisburg. They tendered note forms of those, mentioned ago and whose nominal value amounted to 6 millions mark, whilst demanding their change into valid notes. Having been refused this change, they violently took the sum of 6 millions mark from the cash and disappeared, leaving those note forms, whose "change" they thus - so to say - in a certain measure had enforced.

The, as above mentioned, seized and not returned, not fully printed note sheets have been used for the purpose of forgery in a still increasing measure. These note sheets were not yet supplied with signature types, nor numbered; pieces, cut out of them, have now, supplied with illegitimate signature types and false numbers, come into circulation, how many, it cannot be stated. As yet, there have come 11 pieces, which are now in our possession, to our Bankanstalten. One of those pieces has been tendered by French officers in a shop, and erroneously taken in payment by the shop girl. We beg to enclose the photographic reproduction of the face of that piece. From a comparison with another enclosure of a photographic reproduction, being a completely

enclosure 4th

enclosure 5th

printed

printed note form of the above mentioned kind, results with evidence that the signature types and numbers are being applied by medium of counterfeit stamps. We have, as you will kindly see from the photos, the counterfeit pieces afterwards had cancelled by quintuple or sextuple perforation.

It will be evident - without any doubt - what enormous danger may grow to the whole money circulation from the above detailed proceeding of the French and Belgian authorities, by real counterfeiting the means of payment. From the unauthorized cutting of completely printed sheets into pieces, from the completion of such pieces by printing on them illegitimate signature types and false numbering and from giving into circulation of the cut as well as of the already complete note forms to the own making of German paper money in private printing houses by aid of German printing plates and, furthermore, to the making of German paper money in French offices - is but a small step. The difference is merely gradual, not essential. However, if a Government begins to officially counterfeit foreign paper money, such a beginning might meet with imitation and evoke retorsions which in future severely endanger the monetary relations amongst the civilized countries, and even make them impossible. Especially the money transactions of the issuing banks at all could then no more be maintained, for, that it should be possible, to make in a striking manner all the notes of the world in large paper mills and printing houses, applied with all means of technical science, and that in a way, that makes the recognizing of the forgery impossible, is beyond any doubt.

A letter

A letter with the same contents as this has been directed by us to the Federal Reserve Board. We take the liberty of enclosing it to this letter and should be obliged to you, Mr. Governor, if you would be as kind as to forward it to Washington.

We remain, Mr. Governor,

Yours very faithfully

Reichsbank-Direktorium.

Albin
Harenapp

Statement

of the amounts, violently taken away by the troops of occupation

Date	Amount	Place of the seizure	Remarks
1923			
19. 2.	6 200 000	Reichsbank at Aachen.	Taken away from the cash by an Belgian colonel of the army commissariat.
24. 2.	12 800 100 000	Blockstelle Wangstey near Hagen	Remittance of the Reichsbankhauptkasse, Berlin seized by French controlling officials in the express Berlin-Cologne.
2. 3.	1 000 000 000	Post Office Duisburg	Remittance, made by post by the Reichsbankhauptstelle Dortmund to the Reichsbankstelle Duisburg, seized in the post office at Duisburg by Belgians.
27. 3.	1 000 000 000	Railway Station Sinsen.	Remittance of the Reichsbankstelle Münster to the Reichsbanknebenstelle at Recklinghausen, seized by Belgian controlling officials in a passenger's train
28. 3.	9 400 450 000	near Höchst	Remittance, made by the Reichsbankhauptstelle Frankfurt on Main, to the Reichsbankstelle Wiesbaden, forwarded by motorcar and seized by French controlling officials
4. 4.	3 000 000 000	Rhine Bridge near Worms	Remittance, made by the Reichsbankhauptstelle at Mannheim to the Reichsbanknebenstelle at Worms, forwarded by motorcar and seized by French controlling officials
27 206 750 000 to be transferred			

Date	Amount	Place of the seizure	Remarks
1923 17. 4.	27 106 750 000 75 000 000	transferred at Speyer	Remittance, forwarded in motorcar by the Reichsbanknebenstelle at Speyer to the Reichsbankstelle at Ludwigshafen, seized, whilst leaving Speyer by French controlling officials
1. 5.	5 000 000	Reichsbank Duisburg	taken away from an official of the Reichsbank, whilst returning from an errand, by Belgian detectives in the bank itself.
12. 5.	2 000 000 000	Rhine harbour at Worms	Remittance, forwarded on a Hessian Government steamer by the Reichsbankstelle at Mayence to the Reichsbanknebenstelle at Worms, seized by French harbour controlling officials.
17. 5.	3 000 000 000	Reichsbank at Coblentz	Amount, taken away by the French from the safe of the Reichsbankstelle Coblentz, after having broken up the window of the safe.
26. 5.	92 000 000 000	Reichsbank in Essen	Taken away from the safe of the Reichsbankstelle, having been kept violently open, by French detectives and troops.
total:	127.186.750.000 =====		

Enclosure ^{nd.} 2

Berlin, the 18th of April 1923.

On the 6th of April French troops invaded the printing-house of E. Marks in Mulheim (Ruhr), entrusted by the Reichsbank with the printing of twenty thousand Marknotes, and took away:

- 1.) the printing plates,
- 2.) a large number of partially printed not yet finished sheets,
- 3.) 800 sheets, finished and numbered though not yet out into pieces, having a value of 336 millions Mark,
- 4.) a lot of pieces fully printed, having value 1530 millions Mark.

The printing-plates have been returned since, except one of the most important of them, a plate with texts.

The whereabouts of the same are unknown.

It has been impossible to obtain any information whether or not the plates have been in the meanwhile, the object of abuse, such as the making of prints.

Out of the taken sheets, on which the printing had begun, 41 double-sheets have not been returned.

Dealing with the possibility, that our notes become subject to illegitimate imitation, the possession of such partly printed pieces which show the details of proceedings in printing notes, is obviously of greatest importance.

It seems difficult to admit a suspicion that the French might intend to proceed to illegitimate imitation of our notes.

For this reason we ask you to insist with the French

Government

To the

Foreign Office

B e r l i n.

Government that the missing printing plate together with the sheets on which printing has been begun, be forthwith returned to us, and that the French Government gives to us a formal and solemn assurance, that no prints will be taken from the seized plates.

The other seized pieces, on which printing is finished, and the finished sheets not yet cut into pieces have not been returned till now.

The French commander has, we are told, refused to return them.

The wording of the receipt which the French commissaire special, chef de la Sûreté Française, in Duisburg, has given justifies the conclusion that:

it is the intention of the French to put into circulation the above mentioned notes and the fully printed sheets after having cut them into notes.

We call attention to the fact that: the seized forms, prepared by the printinghouse Marks, by order of the printersfirm W. Buxenstein, which is working for us, are absolutely devoid of any legal feature or quality which would give them the character of legal tenders (banknotes) as long as these forms and prints have not been accepted, examined and put into circulation by us.

The director of the Reichsbank in Mülheim (Ruhr), Herr Schmid, has made the corresponding statement and declaration during the examination he has been subject to in Duisburg on 6th April in the afternoon.

Putting the above mentioned pieces into circulation would be tantamount to putting into circulation false papermoney.

The cutting of the fully printed sheets into pieces
and

and the issue of them would be tantamount to counterfeiting papermoney and issuing it.

We therefore beg to ask you to raise protest with the French Government and to demand the return without delay of the pieces and sheets.

To protect the interests of the money-circulation we have been obliged to publish to-day the following announcements:

The forms of twentythousand Mark notes, fully printed but not yet delivered to the Reichsbank and not yet accepted by her, seized by the French troops of occupation in the printinghouse E. Marks in Mülheim (Ruhr) have not the quality of legal tenders (banknotes) and, therefore, will not be redeemed by the Reichsbank. We warn the public asking them not to accept those notes. They can be recognised by the double letter M.X. which they show in the left corner below, above the stamps, on the face.

The further printing of similiar notes has been stopped."

The Board of directors of the Reichsbank.

On the basis of this letter, the Foreign Office has directed a note of protest to the French Government, which however, has not been answered as yet.

Duisbourg, le 6 avril 1923

Armée Française du Rhin

E.M., 2eme Bureau, 5.2.

Service de Sûreté

Secteur de Duisbourg

No. 1122 Dg.

Reçu

de la somme de un million huit cent soixante six millions (1.866.000.000) saisie ce jour à l'imprimerie M a r k s Ernest à Mulheim, dans le but de suppléer aux requisitions auxquelles le Gouvernement allemand, contrairement à l'arrangement rhénan, se refuse à satisfaire.

Le Commissaire spécial,
Chef de la Sûreté Française:

signature:

(stamp)

Enclosure 3 rd

Duisbourg, le 6 avril 1923

Armée Française du Rhin

.M., 2eme Bureau, 5.2.

Service de Sûreté

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(stamp)

Enclosure 3 rd

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