

797.2A
E. J. [unclear] [unclear] 2

Paris, 26th August 1924.

-I-

Summary of the London Agreement.

In the Protocol and Annexes I to III of the London Agreement the Allied Governments, the Reparation Commission and the German Government confirmed their acceptance of the Experts' Plan and adopted a program for putting it into full effect by the end of October, enumerating the steps to be taken in restoring German economic and fiscal unity. They elaborated certain provisions of the Plan, particularly with reference to deliveries in kind. The Experts having emphasized the necessity of expending almost exclusively within Germany the sums available for Treaty payments during the next two years, deliveries in kind are expected to constitute a considerable part of the payments to the Allies under the early annuities. Provision was made in the Agreement for a special Allied German committee to work out a practical system of placing and executing orders and to consider the practical application of the principle that these deliveries should not be of an anti-economic character. It was further agreed, under conditions designed to safeguard the maintenance of German economic and social life, that deliveries of coal, coal-derivatives, dyestuffs, etc., should be continued after the specific Treaty obligations respecting delivery of these commodities had been fulfilled. Machinery was provided for arbitration of disputes which might arise over certain questions concerning deliveries in kind and the transfer of funds in the hands of the Agent General; also of complaints regarding defects in the ^{technical} working of the Plan so far as relates to collection of payments and control of securities therefor, and of all disputes concerning the interpretation of the Plan or of the German legislation enacted in pursuance of it.

8/26/24

Amongst themselves the Allied Governments in Article 1 of Annex IV adopted an amendment to the Treaty providing that when the Reparation Commission is deliberating on any point relating to the Experts' Report, a citizen of the United States shall take part in the discussions and shall vote as a fifth member of the Commission on full equality with the other members. This member is to be appointed by unanimous vote of the Reparation Commission, or failing unanimity, by the President of the Permanent Court of International Justice, and the appointment is to lapse if the United States should be officially represented on the Reparation Commission. The Allied Governments further dealt with the matter of decisions by the Commission granting or rejecting applications to declare Germany in default under the Reparation clauses of the Treaty or under the Experts' Plan. They agreed by amendment to the Treaty that any such decision by a majority might be appealed by any member who participated in the vote to a permanent arbitral commission of three impartial and independent persons, whose decision shall be final. This Commission, the president of which is to be an American, will be appointed by unanimous vote of the Reparation Commission, or failing unanimity, by the President of the Permanent Court of International Justice. The Governments further agreed that sanctions will not be imposed under Article 18 of Annex II to Part VIII (Reparation) of the Treaty, (which refers to "voluntary default by Germany") unless a default has been established within the meaning of Section III of Part I of the Experts' Report (which refers to "flagrant failure to fulfill the conditions accepted by common agreement"). In Article 2 the Allied Governments declare that in this case,

"acting with the consciousness of joint trusteeship for the financial interests of themselves and of the persons who advance money upon the lines of the said plan, they will confer at once on the nature of the sanctions to be applied and on the method of their rapid and effective application."

8/26/20

In Article 3 they

"declare that in case sanctions have to be imposed in consequence of a default by Germany they will safeguard any specific securities which may be pledged to the service of the loan."

and that

"they consider the service of the loan as entitled to absolute priority as regards any resources of Germany so far as such resources may have been subjected to a general charge in favour of the said loan and also as regards any resources that may arise as a result of the imposition of sanctions."

In Article 4 they agree that

"Any dispute between the signatory Governments arising out of Article 2 or 3 of the present Agreement shall, if it cannot be settled by negotiation, be submitted to the Permanent Court of International Justice."

8/26/24

II.

More Detailed Summary of Important Specific Provisions
of the London Agreement.

The Special Committee on deliveries in kind will determine satisfactory methods of placing orders and securing deliveries which shall adhere, so far as possible, to ordinary commercial usage; will examine "the best means of applying the provisions of the Experts' Report relative to the limitation of deliveries to those which are not of an anti-economic character", and will recommend "the measures to be taken against any persons who may infringe the prohibition against re-exportation of deliveries". The Committee will consist of three members of Allied nationalities and three Germans. In case of differences it will co-opt an additional member of neutral nationality, to be chosen by agreement or in default of agreement, by the Reparation Commission. The decisions of this Committee are subject to approval of the Reparation Commission and of the Transfer Committee insofar as the latter is concerned and are not to be modified without the consent of Germany. The programs of deliveries are to be laid down by the Reparation Commission after consultation with the Transfer Committee.

Under the reparation clauses of the Treaty Germany accorded options for delivery of certain quantities of specified commodities, including coal and coke, up to 1930, sulphate of ammonia up to January 1923, dyestuffs and chemical drugs up to January 1925. The Agreement provides that deliveries of these commodities in particular and of others mentioned in the Treaty shall continue after the fulfillment of the Treaty obligations. The periods for which the deliveries will run are to be determined by the special committee on deliveries in kind which may also exclude certain products if they are indispensable for the protection of the German national economy. The programs of delivery, after consultation with the Transfer Committee are to be laid down by unanimous vote

8/26/26

of the Reparation Commission in agreement with the German Government. Failing unanimity of Reparation Commission or agreement with the German Government the programs of deliveries are to be prescribed by an arbitral commission. This commission is to be appointed in advance by agreement between the Reparation Commission acting unanimously and the German Government or in default of agreement by the President of the Permanent Court of International Justice. The Chairman shall be an American.

All programs for deliveries in kind, whether laid down by the Reparation Commission or by the Arbitral Commission, shall be fixed "with due regard to the possibilities of production in Germany, to the position of her supplies of raw materials and to her domestic requirements in so far as is necessary for the maintenance of her social and economic life and also with due regard to the limitations set out in the Experts' Report." The amounts of deliveries in kind are automatically limited by the annuities prescribed in the Experts' Plan, which embrace all amounts for which Germany is liable to the Powers for costs arising out of the War. They are further subject to the limits fixed by the Transfer Committee with a view to the maintenance of the German exchange.

Under the Plan the Transfer Committee may on the instructions of the Reparation Commission and at the request of creditor states by debiting their reparation accounts transfer marks to private individuals for the purpose of making purchases in Germany. The Agreement provides that differences of opinion between the Transfer Committee and the German Government regarding classes of property in which these investments may be made and regarding measures to ensure that investments shall not be temporary shall be referred to an arbitrator chosen by agreement or, failing agreement, by the President of the Permanent Court of International Justice. If desired by the German Government this arbitrator shall be a national of a country not interested in German reparation payments.

8/26/20

He shall give consideration to the principles enunciated by the Plan, namely that the investment must not be of a temporary character and that "the German Government is required to have due regard to the necessity for making maximum payments to its creditors, but is also entitled to have regard to maintaining its control of its own internal economy."

The Agreement provides that the question of the existence of "concerted financial manoeuvres" for the purpose of preventing transfers of funds outside of Germany (Annex 6 of the Plan) shall be referred to an Arbitrator in case the Transfer Committee is equally divided. He shall be a financial expert chosen by agreement of the Committee or failing agreement by the President of the Permanent Court of International Justice. On all other questions if the Transfer Committee is equally divided the Chairman shall have a casting vote.

When the undistributed funds in the hands of the Agent General reach the limit contemplated by the plan a decision of a majority of the Transfer Committee that certain measures to defeat concerted financial manoeuvres should not be taken or that such manoeuvres have not taken place may be appealed by a member of the minority to an Arbitral Tribunal of three financial experts, the chairman of which shall be an American. This Tribunal will be selected in the same manner as the Arbitrator referred to in the previous paragraph.

Any complaints by an interested government (Allied or German) regarding defects in the technical working of the Plan, so far as relates to the collection of German payments or the control of securities therefor, may be addressed to the Reparation Commission which will obtain the advice of a committee consisting of the Agent General, the Trustee or Trustees and the three Commissioners. If the Reparation Commission is not unanimous in its findings or if its decision is not accepted by the German government any of the parties interested may submit the question to an arbitral committee of 3 persons chosen by agreement between the Reparation Commission acting unanimously and the German government or in default

8/26/24

of such agreement by the President of the Court of International Justice.

Subject to powers of interpretation conferred on the Reparation Commission by Para. 12 to Annex II of Part VIII of the Treaty, disputes arising between the Reparation Commission and the German government regarding the interpretation of the Plan or the German legislation enacted in execution of it shall be submitted for decision to three arbitrators appointed for five years; one by the Reparation Commission, one by the German government and the third by agreement, or failing that, by the President of the Court of International Justice. Pending decision the Arbitrators may order any appropriate provisional measures to avoid interruption in the working of the Plan and to safeguard the rights of the parties.

Referred to in letter of F. R. Bd. X4049-
5/7/24-



REPORT OF COMMITTEES OF EXPERTS TO REPARATION COMMISSION

Complete Official English Text
with Annexes



From FEDERAL RESERVE BULLETIN, May, 1924

WASHINGTON
GOVERNMENT PRINTING OFFICE
1924

Letter of J. A. L. 7/11/21
Confidential

Excluded

Memorandum

On account of the one milliard gold marks which according to the schedule of payment of May 5, 1921, Germany has to pay until August 31, 1921, there have been paid so far 300 million gold marks. There remain to be paid, therefore, within six weeks 700 million gold marks. Part of this latter sum has been provided for thru credit operations and otherwise by the German Government, but in any event Germany will have to buy in the open market until August 31 an amount of foreign exchange which may safely be estimated at between 400 and 500 million gold marks.

The purchases of foreign exchange so far made by Germany have had a disturbing effect not only on the rate of exchange of the Reichsmark but on the exchange markets thruout. Since the beginning of those purchases the U. S. Dollars have risen remarkably to the detriment of all European exchanges. That phenomenon was at first attributed to the request of the Reparation Commission that all payments by Germany should be made in U. S. Dollars. It has to be stated, however, that the rise of the dollar has continued altho some time ago the Reparation Commission did no longer ask for U. S. Dollars but for payments in the currencies of the allied countries and tho the German Government, of course, has ceased to purchase American money. It is interesting and somewhat strange to see that in a general way the rates of exchange of the other European countries do follow the movements of the Reichsmark in respect to the U. S. Dollar. From May to the middle of July the Pound Sterling has fallen from about \$4 to \$3.65 (cable rate) whereas the Dutch Guilder in the same time weakened from about 35 cents to about 32 cents. When quite lately the mark rose in New York from 1.28 to 1.35 there was a corresponding improvement of the other European rates as against the U. S. Dollar.

There is no other satisfactory explanation to be found for the disturbing and disquieting state of affairs except the powerful influence of speculation. Such speculation is actively going on thruout Germany and perhaps likewise in other countries. Everybody knows that the German Government is in dire need of foreign exchange and has to face other sanctions if it does not succeed in finding the full billion goldmarks until 31st of August. Nothing is easier than to speculate on such a basis on the back of the German Government. Every speculator, therefore, is selling Reichsmarks and buying foreign exchange, by preference U. S. Dollars. For even tho it has been made public that the Reparation Commission does for the present not want the payment of U. S. Dollars, the currency of the United States is generally known as the standard currency, equivalent to gold and which regulates all payments in so-called gold marks. It is clear that the more Reichsmarks are sold by speculation and the longer the rise of the dollar continues, the less it will be possible for the German Government to buy foreign exchange. It is not only a question of buying at higher prices and paying for the 1 milliard goldmarks, perhaps 20 milliards instead of 15 milliards paper marks. That would be serious enough. But the essential point is that the continuous rise of foreign exchange in Germany as compared with the Reichsmark induces everybody to hold back in offering foreign exchange closing thereby practically the exchange market to the German Government. It is a well known fact that foreign exchange as well as other goods will be freely offered only at falling prices. It is clear, therefore, that the more foreign rises, the smaller will be the amount the German Government is able to buy. If that situation does not change, a crisis will be inevitable by August 31 not only for the Reichsmark, but for the exchange market in general. It is hard to foresee the consequences of excited speculation a few weeks hence.

The German Government is in a "corner" formed by unscrupulous speculation. It is necessary to break that corner, but the German Government is powerless so long as the critical date of August 31st remains in force. Speculation, otherwise invulnerable, can be caught only if the absolute necessity to pay the full billion on August 31st is done away with, but in that case the speculation which is by far overdone and does not at all correspond with the underlying economic conditions is bound to break down. One might object that an extension of the payment, say of three months, i.e. until November 30th, would not essentially change the situation and would only postpone the critical date by three months. But such a view would not be justified. The amount which the German Government may not be able to meet on August 31st, may be at the utmost 500 million gold marks. Now, long experience has shown that it is easy for the German Government to collect in ordinary times 150 million gold marks foreign exchange a month. That would make 450 million in three months. But the heavy shock speculation in foreign exchange must receive if it be made known that Germany is left another three months for paying the remainder of her present debt will at once flood the exchange markets in Germany with enormous offerings of foreign exchange and will bring about a corresponding rise of the Reichsmark in other countries. The consequence of the granting of the extension, therefore, will be this, that the German Government will be enabled to pay the full milliard by August 31st. In other words, the only practical way of enabling the German Government to fulfill its obligation on August 31st will be to grant her an extension of the same obligation for three months.

The German Government, however, cannot possibly come forward with the demand of such an extension of time. That cannot be done for political reasons, but there should be no objection to the Committee of Guarantees making such a suggestion to the Reparation Commission and to the Allied Governments. The Committee of Guarantees has just completed a thoro study of Germany's economic and financial situation. It ought to be fully aware of the facts elucidated above and it should plead for the extension of three months, not in order to grant Germany a favor, but to meet the necessities of the circumstances in order to safeguard the interests of everybody concerned.

July 15, 1921.

referred to in letter

J.A.S.
7/26/21

C797

no 5

CONFIDENTIAL

REPORT OF A CONVERSATION WITH HERR BERGMAN
PRESIDENT OF THE GERMAN KRIEGSLASTENKOMMISSION
JUNE 1921.

The following is a summary of Herr Bergman's remarks during an informal conversation with Mr. Bamelmans and myself in Berlin, concerning German first annual payments under the Schedule of Payments. I understand that these views have been informally presented by Bergman to the British and French on the Reparation Commission and are now under consideration. Bamelmans advised me of having reported the matter to Delacroix who is inclined to be favorably disposed and has referred the matter to his Government.

The following is a summary of Bergman's remarks, viz:

Bergman referred to Germany's difficulty in meeting the first few annual payments under the Schedule of Payments. For the purpose of determining what Germany had to pay within the next few years, he took the figure of 5 milliard gold marks as representing the value of German exports, and thus the "index" figure referred to in Article 4 of the Schedule. 26% of this or 1,300 million constituted the "variable" annuity which added to the "fixed" annuities of 2 milliards would give a total annual payment of 3,500 million gold marks.

Bergman was firmly of the opinion that the "export index" which had been selected as "a measure" of Germany's economic recovery was the worst that could be found. Its practical result was to automatically restrict exports and even to force the German Government to actually take measures to cut them down. Bergman's argument was that the Allied Governments should provisionally suspend the application of the index scheme and admit a total annual payment from Germany of 3,500 million gold marks

for a period of five years. If this were possible Bergman's view was that the German Government could cover such 5 years' payments by means of an internal gold loan in Germany together with other reasonably assured revenues. He expressed himself as convinced that many Germans still held foreign values of importance now concealed. These values had disappeared during the period from the signing of the Treaty in July 1919 until the beginning of 1920. As evidence of such disappearances, Bergman stated that in July 1919 the value of the German mark in Holland was 20 cents but by July 1920 it had fallen to 2-1/2 cents. According to Bergman, who has been in close touch with banking and investment activities, the only explanation for so great a fall was the mass purchases of foreign money and other foreign values by German nationals desiring to protect themselves from the results of internal financial difficulties or even from a revolution which at that time was feared.

Bergman felt that it would now be possible for the German Government to raise an internal loan of from 5 to 6 billion gold marks were it possible for the Government to exempt such loan from past and future taxes and at the same time grant amnesty to its nationals who, contrary to German laws, had so disposed of their German marks.

Bergman also believed that by definitely fixing the annuities for a period of 5 years a certain economic stability would ensue and it would be possible for the German Government to arrange through neutrals for a loan in the neighborhood of 2 milliard of gold marks.

The two foregoing loans, according to Bergman, should therefore yield between 7 and 8 billion gold marks. This

added to the value of "deliveries in kind" to the Allies
and other reasonably assured revenues
during the next 5 years would amply protect the service of
the bonds for the period in question.

Bamelmans at this time interrupted Bergman stating that he did not believe the Allies could be prevailed upon to consider a project of this kind at the very moment of the acceptance by Germany of the Ultimatum and the going into effect of the Schedule of Payments which contemplated an increasing annual scale of payments by Germany under the "variable". On the other hand, Bamelmans expressed the view that a plan such as that proposed might be acceptable were it possible for an additional annual increment of say 100 million gold marks, being added to the 5,300 million assumed as basis for the first year.

Bergman opposed the idea of the addition of this annual increment but as counter-proposal suggested that instead of fixing the total annuities for 5 years, 3 years be accepted, and, in the meantime, the adoption of some other basis of index considered to meet German payments after the expiration of 3 years.

The foregoing conversation should not be taken too seriously. The partisan position of Bergman has not been lost sight of and the optimistic "yield" from the proposed loans has not been overlooked. On the other hand we all know that Bergman's relations with the present German Government are of the strongest possible character and that, therefore, he would not have made these statements - which he knew perfectly well both Bamelmans and myself would report - had he not a certain justification in believing that some such solution as that proposed was under consideration by the German Government.

James A. Logan, Jr.

CONFIDENTIAL

Third

Paris, 24 rue de Tilsitt.
22d August, 1921.

Controller-General Mauciere,
President, Committee of Guarantees,
Hotel Astoria, Paris.

My dear Controller-General:

It seems clear that Germany will complete the one milliard payment by August 31. Doubt as to this point and the influence of the vacation season have led to an interval of inactivity. I take it for granted that the Committee will now promptly come to life and proceed to carry into practical effect the decisions as to the security to be obtained from Germany and as to the supervision to be exercised over Germany's finances and customs, also that the Committee will shortly hold another conference with the German Government in Berlin.

But I wish to suggest the necessity of considering certain broader lines of policy. The appointment of this Committee as a special instrument of the Reparation Commission for dealing with the indemnity and the bonds, and with German finances in their relation to the indemnity and the bonds emphasizes greatly the responsibility of the R. C. Even more than before the Powers whom we represent and world opinion will naturally and rightly look to the Reparation Commission and the Committee of Guarantees to influence the course of events within the prescribed limits, to point out measures necessary to reach the desired ends, to warn of impending danger, to pass judgment on Germany's efforts and their success or failure. Our work should now be of more positive and constructive character than before. I believe this is not only a duty, but an opportunity both for the Commission and the Committee.

In elaboration of the foregoing, let me suggest two lines of policy:

First. I believe that it is utterly impossible for Germany to pay the army costs, the clearing house balances, the expenses of the various commissions and the reparation annuities, unless some working scheme for large deliveries in kind is arranged. I believe also that it is necessary and practicable to use German labor in the devastated regions.

Apart from the advantage to reparations I regard these two things as of extreme importance for other reasons. First, they help to prevent artificial distortion of the economic life of the countries in which the devastation was greatest. It would, for instance, be a permanent injury to France to divert from natural and permanent lines a large percentage of her industrial effort to meet the needs of reconstruction. Second, such arrangements for the use of German materials and labor would minimize the danger now feared by all countries, viz: that Germany's exports, stipulated by the necessity of meeting the indemnity, and by her depreciating exchange and consequent low labor cost, will disorganize the markets and industries of all other countries.

So far as we are all in agreement on the foregoing, I believe the Commission and the Committee should make every effort to bring about such arrangements. We should emphasize their necessity, perhaps publicly, but certainly to our governments. We should use our influence to prevent the less important disadvantages and difficulties from obstructing the great advantages. And we should urge speed; already four months of the first year of the schedule of Payments have passed.

Second. With or without such arrangements, Germany may succeed in meeting her obligations. But suppose she does not, what is then the position of the Commission and of the Committee? We all know enough and hear pessimistic opinions enough to realize that this contingency cannot be considered too quickly or too carefully. In my judgment the answer is -

A. The Commission must be in position to say that with the aid of the most competent economic and financial advice it has followed intimately the details of the German effort, that it has studied carefully the practical methods of accomplishing results, that it has suggested to the Allies and to Germany promptly every possible means of improving the situation.

B. The Commission and the Committee ought, if Germany ever defaults, to be in position to say, and to say authoritatively because it knows better at least than anyone else, what are the reasons for the failure. The important question - not only for Germany, or for France, but for the world, will at that moment be - Has Germany really tried to fulfill her obligations? There are plenty of journalists, politicians, and partisans in Germany and elsewhere whose loud vociferations of opinion can be foretold today. But the question which will then be the most important question in the world ought to be answered by the best authority in the world. The Commission and the Committee ought to be in position to speak with that authority.

I request that the Secretary General of the Committee have this letter reproduced in French and English and circulated as a regular Annex. I also request that it be entered on the Agenda for consideration at the next meeting of the Committee of Guarantees.

Faithfully yours,

(Signed) James A. Logan, Jr.
Unofficial Representative
of the United States with the Committee
of Guarantees.

CONFIDENTIAL

18 rue de Tilsitt, Paris.
September 2, 1921.

Memorandum for Minute Service:

The United States Unofficial Delegate requests the insertion in Minutes 18 (Committee of Guarantees) of his remarks made during the meeting, and which are hereunder given.

"58-A. Note from the Unofficial Representative of the United States (Annex C.G. 67).

Mr. Logan, after briefly summarizing his views as set forth in Annex C. G. 67, made the following additional remarks:

His object in presenting the note was first to stimulate some action which might result in materially increasing the deliveries in kind to be made by Germany on reparation account and, secondly, to cause the Committee to frankly and immediately face any possibility of Germany's default in the Schedule of Payments and take action in consideration of such a possibility.

In justification of the first point of his note, he said that the necessity for augmenting deliveries in kind at an early date to the highest possible value has been clearly demonstrated by the difficulties experienced by Germany in securing the foreign values essential to the payment of the first milliard, which was finally accomplished only by the withdrawal of some 80,000,000 of metallic gold from the remaining reserves of Germany. He further observed that measures thus far taken by the Committee produced only paper marks and that these paper marks must remain unconvertible into foreign currencies under prospective conditions of Germany's foreign trade, and that this demonstrated necessity of relying in large measure upon deliveries in kind if the reparation debt is to be paid.

Upon the second point Mr. Logan pointed out that public opinion, as reflected by the Press, is uneasy and skeptical with regard to Germany's actual ability to meet the terms of the Schedule of Payments. In his opinion it was the duty of the Committee to qualify itself at the earliest possible date as a body of experts on the economic and financial condition, actual and potential, of Germany, particularly with regard to the ability to meet the terms of payment. The Committee should be in a position to reassure the Government and eventually the public upon this point and consequently upon the security of the bonds. It was its duty to advise the Reparation Commission forthwith whenever reasonable doubt existed as to Germany's ability to carry out the program. He stated that he ventured no expression of personal opinion as to Germany's ability to meet her obligations but that he wished only to urge the Committee forthwith to inform itself and reassure the Reparation Commission upon this question. He further stated

that if the Committee did not correctly judge the condition of Germany and correctly forecast the progress of the Reparation program, the Committee would properly be subject to severe criticism in the event of Germany's default.

Mr. Logan stated that the actual situation was as follows:

CLASS "A" BONDS to the value of 12,000,000,000 Gold Marks had already been accepted by the Commission. Germany would, therefore, have to transfer values to the sum of 720,000,000 gold marks per annum as from May 1, 1921, to meet their obligations under this class of bond.

CLASS "B" BONDS to the value of 38,000,000,000 Gold Marks were to be received from the Germans under the Schedule of Payments November 1st, with a n annual payment of six per cent. as from that date. Values to the amount of 1,140,000,000 Gold Marks must be forthcoming from Germany before May 1, 1922, to meet the service of these bonds. In succeeding years from May 1, 1922, the values forthcoming from Germany to meet the service of the sema must be 2,228,000,000.

In other words, for the period May 1, 1921, to May 1, 1922, 1,860,000,000 Gold Marks was the minimum sum necessary to meet the first year's service of bonds. In succeeding years to meet the service of A and B bonds alone three milliard gold marks per annum are required.

Germany's obligations on account of Army cost and clearing house operations must also be considered.

In his opinion the questions, therefore, before the Committee were, viz;

First - Has the Committee such duties, vis-a-vis the Reparation Commission, or present or possible future holders of these bonds, making it incumbent upon it to thoroughly investigate possibilities of German payments and, if there be any danger of default, to so report to the Reparation Commission? In Mr. Logan's opinion it had this duty.

Second - If Mr. Logan's views in regard to the first point were accepted, would it not be advisable to proceed forthwith with "a thorough examination of the German situation through the medium of the best obtainable expert financial and economic advice, and before November 1st (or the date of issuance of the new bonds) for the Committee to suggest to the Commission such changes, if any, it found necessary to suggest in the Schedule of Payments? In Mr. Logan's view, if it was determined after the investigation that Germany could meet the Schedule of Payments, it would be advisable to report such opinion to the Commission so that the latter in turn could inform the interest^d governments. If on the other hand, it determined that Germany could not meet the Schedule it should immediately advise the Commission and suggest the appropriate changes."

THE COMMITTEE TOOK NOTE OF THE CONSIDERATIONS PUT FORWARD IN MR. LOGAN'S MEMORANDUM AND DECIDED TO REQUEST ITS DELEGATION IN BERLIN TO UNDERTAKE A CRITICAL EXAMINATION OF THE STEPS TAKEN BY THE GERMAN GOVERNMENT SINCE THE COMMITTEE'S LAST VISIT TO BERLIN TO BALANCE ITS BUDGET. THIS STUDY, WHICH WAS DESIGNED TO ALLOW THE COMMITTEE TO JUDGE OF THE SINCERITY OF THE EFFORTS MADE IN THIS CONNECTION BY THE GERMAN GOVERNMENT AS A RESULT OF THE OBSERVATIONS MADE IN THE NOTE NO. 1 OF JUNE 28th 1921 (ANNEX C.G. 37 b) SHOULD IN CONSEQUENCE BE DIRECTED TO THE MEASURES TAKEN OR CONTEMPLATED BY THE GERMAN GOVERNMENT TO ARRIVE AT A REDUCTION IN EXPENDITURES AND AN INCREASE IN REVENUE.

(Decision of Committee as recorded by Secretary General.)

"Mr. Logan stated that ~~the~~ while the decision taken was perhaps a step in the right direction, he nevertheless considered it as insufficient and requested to be recorded accordingly."

For the General Secretary.

FBB:P

CONFIDENTIAL

September 1921.

COMMENTS ON TREATMENT OF OUR FOREIGN WAR LOANS
IN CONNECTION WITH THE GERMAN REPARATION SETTLEMENT.

The German Reparation Debt to the Allies and the Debts of the Allies to the United States result in forming a sort of vicious financial and economic cycle from which both America and Europe suffer.

The German Reparation Bill as fixed by the Allied bill of damages is really conservative, particularly when we consider that the amount - 132 billion gold marks - not only includes the total Allied Reparation claims against Germany but also the total claims against Austria, Hungary and Bulgaria. Under the terms of the Treaty of Versailles, Germany assumes responsibility for the payment of damages occasioned by her Allies during the War. The proportion of the total claim properly chargeable to Austria and Hungary has not been definitely fixed - Bulgaria's debt is fixed by the Treaty of Neuilly at 2,500 million gold francs. Of the 132 billion gold marks payable by Germany, I believe about 10 million represent the debts of her Allies.

Our Allied friends, particularly the French, need cash to meet budget deficits. In any event, they will always prefer cash as distinguished from "deliveries in kind" in order to protect their own industries from German competition and eventually, if they are to meet their obligation to the United States.

Nevertheless Germany in her present economic situation cannot pay cash (foreign exchange) to any great amount in the near future. Germany can meet her obligation under Reparation Series "A" Bonds, will have difficulty for a few years in meeting her entire obligation under Reparation Series "B" bonds but ultimately will meet these. The value of Reparation Series "C" bonds is most decidedly questionable and their ultimate amortization therefore problematic. (See Annex B). If her entire Reparation obligations are to be met, they can be met only by opening to her the markets of the world and accepting in kind the products of her industries.

The position of the United States is much the same. Our foreign loans represent largely the value of American supplies purchased during the war in America and sent to Europe. The United States is in need of cash to retire as large an amount as possible of its national loans, so as to reduce taxation. Nevertheless, we too, while admitting that our loans to the Allies represent our exports, desire cash in return, and are loath to allow our debtors to pay off their indebtedness by their exports to us, that is, by "deliveries in kind".

European political leaders are nervous and forced to extreme lines of conduct through the exigencies of public opinion. Many of these political leaders realize the fallacy of their position and admit it in personal conversation but declare that they are faced with an impossible problem. This results in foolish "economic sanctions", thousands of unnecessary troops being maintained in Germany actually eating up Reparation money, and the men themselves out of useful employment at home, etc. All this results in keeping the pot boiling in Europe and if some adjustment is not effected we, and not only Europe, are bound to suffer. We would like to follow a policy of European isolation but as yet no formula has been developed the application of which would have the effect of protecting us from the workings of normal universal economic laws.

I note that it has been suggested in America that our Allied creditors raise money to meet their American obligations by collecting and transferring to us American and other foreign securities now held by their nationals. If thoughtfully considered the political and financial difficulties not only to the Allies but to ourselves would show how fruitless any return from such an endeavor would be. None of the Allied Governments are strong enough to enforce such a measure and even with their best endeavor the return from such sources would be negligible when compared with their total indebtedness.

If we attempt to force our Allies to pay us in cash within any reasonable future time, they must get this cash from Germany. On the other hand if Germany is to pay such cash to the Allies it must be taken from monies accruing through either direct or indirect tribute from the United States, neutral or Allied Powers. We are, therefore, in the position today of contributing substantial sums of money to be applied in the service of the bonds and without any resulting benefits to ourselves.

So long as we have no direct interest in German Reparation bonds our influence in ameliorating the measures taken by the Allies to enforce German payments is becoming weaker and weaker. It must be admitted that there is a growing tendency on the part of all our Allied creditors to regard with less and less seriousness the obligations of our loans to them. I would not cancel the Allies' debt to us, nor, on the other hand, could I expect them to cancel Germany's debt to them. I would, however, endeavor to handle the situation ~~in whole~~ with the idea of stiffening our foreign loan position and, at the same time, maintaining our special position of political, financial and economic influence.

The popular argument against our acceptance of Reparation bonds from the Allied Governments in settlement of loans has been that this would embroil us in European politics by involving us in military and other coercive measures against Germany in enforcing payments. The ultimate means of collecting a debt, whether it be a debt owed by Germany to the Allies or a debt owed by the Allies to us, is force. The Allies are reluctantly becoming convinced that force is fruitless of results with Germany and both we and the Allies know that so far as the situation between them and ourselves is concerned that we would not pursue such a line of action. In accordance with my view there is, therefore, little if any difference in the position between the Allies' settlement to us and the Reparation settlement with the Allies and neither one nor the other has more or less elements of eventual difficulty.

I believe, on the other hand, that if we exchanged approximately 50% of the demand notes of each of the principal Allied Governments we now hold for a corresponding equity in their share of German Reparation bonds, we would be in a better position financially and politically to exercise our influence, requiring a business-like treatment of the general financial situation and thus hasten the return to greater political and economic stability. I would not take more than 50% of each of their actual obligations to us in German paper as I believe it would be desirable to have their direct obligation to us and the amount of German paper received through them equal in amount. Under my proposal I can see no advantage and every disadvantage in asking the Allies to guarantee the German paper transferred to us under this scheme. I roughly estimate the amount of German paper to be received by us under this plan at 5 billion dollars (or 20 billion gold marks).

It would be advisable to ask the British and French Governments, when taking over any German paper from them, to handle their Italian and Belgian loans on the same line as that proposed for us in this plan. This proposal is quite in line with the frequent

published

published references of Lloyd George and other European Statesmen as to the "joint treatment" to be accorded this financial problem and under my solution is not disadvantageous to us.

The German paper now held or to be held by the Allies is Reparation bonds Class "A" (12 billion gold marks), Class "B" (38 billion gold marks), and eventually Class "C" (82 billion gold marks). In exchanging German bonds for Allied demand notes up to 50% of the individual Allied loans by us (also by Great Britain and France), one of the following methods might be adopted, viz:

FIRST.- In exchange for 50% of our demand notes to ask for the equivalent sums in the following proportions of German bonds, viz: $\frac{12}{132}$ Series "A" Bonds, $\frac{38}{132}$ Series "B" Bonds, $\frac{82}{132}$ Series "C" Bonds.

SECOND.- In exchange for 50% of our demand notes and assuming Series "C" Bonds as practically worthless, to ask for the equivalent sums in the following proportions of German bonds, viz: $\frac{12}{50}$ Series "A" Bonds, $\frac{38}{50}$ Series "B" Bonds.

THIRD.- A more conciliatory and better business treatment would be in exchange for 50% of our demand notes to ask for the equivalent sum all in Series "B" bonds.

In the proposed exchange of German bonds for our demand notes I would disregard the "FIRST" as it would saddle us with "C" Bonds of questionable value. I would disregard the "SECOND" as the demand is practically unnecessary and as it would unquestionably meet with too serious opposition on the part of the Allies. I would accept the "THIRD" for the reason stated. (See in this connection Annexes A and B attached).

I believe the foregoing proposals constitute a sound business treatment of the existing situation. This solution has the following advantages:

First.- There are equal if not better prospects of the Germans paying off Reparation bonds of Series "B" than there are for the Allied Governments settling their debt with us.

Second.- America will contribute directly or indirectly substantial sums of money for the service of these bonds and on this account it would be advantageous to have some participation in the distribution of such contribution.

Third.- The reduction of our Allied loans by 50% makes it possible to contemplate a much earlier and more complete settlement of our foreign loans.

Fourth.- Under this arrangement the payment of interest and final amortization of our Allied loans could be effected with less disturbance of exchange and with greater economic benefits than if any attempts were made in the near future to collect the entire amount of our indebtedness.

Fifth.- By using the 50% "re-adjustment" basis we are in a better tactical position to enforce moderation in the Allied settlement of the German position than if we were not holders of Series "B" bonds and were simply holders of Allied obligations. It would be quite reasonable at times

to take the position of "according exactly the same treatment to one of the Allies as the latter accords to Germany".

Sixth.- Incidentally and during negotiations, we could demand agreements looking to the reduction of "armies of Occupation, prohibition of economic sanctions, etc. all of which are so essential to the general solution of the problem.

Seventh.- The value of Series "A" and Series "B" bonds would be considerably strengthened with resulting benefits to the Allied Powers.

Accompanying "Comments on Treatment of our Foreign War Loans in Connection with the German Reparation Settlement" (See in the following connection the "Schedule of Payments" hereto annexed as Annex B).

OUTLINE OF SCHEME OF READJUSTMENT OF LOANS AND REPARATION SERIES "B" BONDS.

(All figures approximate and expressed in dollars - 4 gold marks assumed for convenience as equalling 1 dollar.
000,000, 's omitted).

I Present Position Foreign Loans		II Proposed Re-Adjustment Foreign Loans and Series "B" bonds						III Distribution of "B" bonds in accordance with % Agreement in Spa Protocol		IV Position of loans and "B" bonds after re-adjustment as proposed in Column II			
Foreign Loans	Lent by	UNITED STATES		GREAT BRITAIN		FRANCE		Amount	%	Loans		"B" bonds Position and amount	
		U.S. loan	"B" bond	British loan	"B" bond	French loan	"B" bond			Amount	Lent by		
United States												4504	
Great Britain	4200	U.S.	2100	2100				2090	22.	2100	U.S.	1894	
France	3400 2200	U.S. G.B.	1700	1700	1100	1100		4940	52.	1700 1100	U.S. G.B.	2374	
Italy	1700 2200	U.S. G.B.	1225	475 (1)	1725	475 (1)		950	10.	1225 1725	U.S. G.B.		
Belgium	374 430 450	U.S? G.B. France	187	187	215	215	225	225	760	8.	187 215 225	U.S. G.B. France	133
Roumania	36 84 18	U.S. G.B. France	18	18	42	42		9	9	(2) () () ()	U.S. G.B. France	() () () ()	
S. H. S.	48 84	U.S. G.B.	24	24	42	42				617 $\frac{5}{10}$	6.5	482 $\frac{5}{10}$	
Portugal	60	G.B.			30	30				71 $\frac{25}{100}$	0.75	41 $\frac{25}{100}$	
Japan										71 $\frac{25}{100}$	0.75	71 $\frac{25}{100}$	
Totals	\$ 9758 5058 468	U.S. G.B. France	\$ 5254	\$ 4504	\$ 3154	\$ 1904	\$ 234	\$ 234	\$ 9500 (3)	100.	\$ 5254 3154 234	U.S. G.B. France	\$ 9500 (3)

Note (1) Italy's equity in "B" bonds is \$950, which is shown on this table as divided equally between U.S. and G.B.

(2) Agreement as to % to be accorded Roumania, S.H.S., and other smaller Powers not yet determined - 6 1/2% however reserved by Spa Protocol to meet such claims.

(3) Schedule of Payments fixes "B" bond issue 38 billion gold marks or 9 billion 500 million dollars.

Referred to in letter of
Jard. 7/6/22

Exhibit A.

The Reparation Commission decided to grant to the German Government a provisional postponement of the instalments due on the 15th of January and the 15th of February, 1922 (in so far as they are not covered by cash payments already made or which may be made, and by deliveries in kind and receipts under the reparation Recovery Acts, received or which may be received up to the respective due dates) subject to the following conditions:

a) During the period of provisional postponement the German Government shall pay, in approved foreign currencies, the amount of 51 millions of gold marks every ten days, the first payment being upon the 18th of January, 1922.

b) The German Government shall, within a period of 15 days, submit to the Commission a scheme of Budget and currency reform, with appropriate guaranties, as well as a complete programme of cash payments and deliveries in kind for the year 1922.

c) The period of provisional postponement shall end as soon as the Commission or the Allied Governments have taken a decision with regard to the scheme and programme indicated in paragraph b.

Except and so far as may be otherwise provided in this decision, the difference between the amounts actually paid during the period of the provisional postponement and the sums due during the same period under the Schedule of Payments shall become due and payable within 15 days from the decision of the Reparation Commission or of the Allied Governments, as the case may be.

When the scheme and programme referred to above have been received by the Reparation Commission, they will be immediately transmitted by the Commission to the Allied Governments, who will thus be in a position either to deal with the matter themselves or to refer it back to the Commission to be dealt with by the latter.

Cannes, January 13, 1922.

AUSTRIA'S FUTURE LOAN.

On the assumption that all the Powers having liens on Austrian assets will, in the near future, agree to postponement, discussions have been taking place in Vienna and elsewhere as to the loan or loans to be raised on the security of these assets.

The majority of the soundest financial authorities in London and Vienna appear to favour a relatively modest public loan, not to exceed five million sterling, to be raised through British and American issuing houses, possibly with the co-operation of other European groups. The revenue from the Austrian Customs would be the security for interest and amortisation. No difficulty would be experienced in arranging for a receivership, on behalf of the lenders, of the Customs revenue or for such other reasonable supervision of Austria's finances as the lenders might consider vital to their interests, though in this connection the co-operation of the League of Nations would probably be necessary and useful. The value of the Customs receipts would, under normal conditions, justify the issue of a larger loan than is suggested, but such well-informed authorities as the Governor of the Bank of England and Mr. Keynes strongly urge that the first loan should not exceed five million sterling. It has therefore been suggested that a further issue might later be made against the same security as and when, in the judgment of Trustees, the Customs receipts cover, say by four times, the additional interest and amortisation, with option to Austria to redeem the first loan within, say, two years. (There are those who believe, notably Dr. Rosenberg, of the Anglo-Austrian Bank and recently Financial Adviser to the Austrian Government, that 10 million sterling will be sufficient to put Austria on her feet.

At a later date, that is to say, when it has become possible to judge the effects of Austria's present internal policy and of the loans, it is proposed to found a new Bank of Issue. It is reasonable to suppose that the groups undertaking the issue of the first Austrian loan might obtain, if they desired, the first opportunity to take part in this Bank, which should be lucrative.

In the League of Nations' proposals last year it was suggested that a Bank of Issue for stabilising the currency, with a capital of 100 million French francs and the exclusive privilege of issuing notes in Austria for 25 years, should be the first step in financial reconstruction. Since then, however, I think it has generally come to be admitted that it would be inadvisable to constitute the new Bank of Issue at the outset. It was also proposed by the League of Nations that foreign credits should be obtained not merely against the security of the Customs, but also against the Tobacco Monopoly, the State forests, with the additional security of a first mortgage against all private real estate in Austria representing 4 per cent of its pre-war value. This plan naturally envisaged a loan much larger than five million sterling. London bankers, however, are, so far as I have been able to ascertain, almost unanimous in the belief that Austria's first issue should be made against one specific security and that the temptation to raise a larger loan against a conglomeration of assets should be resisted in favour of a modest loan against a form of security with ~~xxxx~~ which international bankers and publics are familiar.

This question of a small as opposed to a large loan raises the important point of repayment of the present and promised interim loans from Governments. Great Britain has just given a credit of two million sterling on the understanding that it shall be paid back in one, or at the most, two years. The French and Italian Government credits, if they materialise, are likely to be on similar

lines. The natural inclination of Governments is to urge the flotation of a large Austrian loan out of which the present advances could be repaid, or, failing that, a loan of such proportions as would enable the lending Governments to underwrite an amount equal to their interim advances and still leave Austria with enough working capital. I feel sure, however, that this plan would not be to the eventual advantage of the lending Governments and I think they can be brought to agree to and to support a first issue of, say, five million sterling against the Austrian Customs, without insisting that any part of it shall be available for the repayment of the interim Government advances. Repayment to the Governments can, I hope, be arranged subsequently by a funding process or, as Austrian credit gradually becomes established, by loans which would not affect the security of the first issue.

Customs Receipts.

I attach details of the Austrian Customs receipts for 1920, 1921, and January of this year. The constant fluctuations in exchange, and particularly the headlong ^f decline of the Krone in the latter part of 1921, make general conclusions and analysis extremely difficult. It will be seen that in the past the Austrian Government, instead of collecting their Customs duties on a gold basis have fixed constantly rising multiples at which paper Kronen have been accepted for Customs gold duties. These multiples were arbitrary and by no means corresponded with gold parity. For instance, in January of this year duties were payable in paper Kronen at the rate of 300 times the existing gold tariff, whereas the actual parity was 270 times. I should mention, however, that since last November the duties on luxury articles have been charged at full gold basis.

The Austrian Government were determined, when I left Vienna three weeks ago, to collect all duties on a gold parity basis. If one applies this calculation to the gross Customs revenue shown

for the month January of this year, which was rather below the monthly average of 1921, seven million gold Kronen would result. Assuming that the revenue of January was maintained throughout the other eleven months of 1922, there would be an annual revenue roughly equivalent to 715,800,000. However, when the Customs are raised to a gold parity basis it will doubtless be necessary, in certain cases, such as fundamental industries, to reduce the tariff and also to make allowance for a decrease in general imports. Assuming that the gross receipts decreased by one half, which is improbable, there would still remain a revenue of 78,400,000, less administration expenses calculated at 6.1 per cent, to cover the service and sinking fund of a loan not exceeding, say, 724,000,000.

Austrian Trade Balance.

The latest Trade figures available give the imports and exports for the first nine months of 1921 but by weight only. The Austrian Ministry of Trade, however, has made an approximate estimate of values on a basis of pre-war prices in gold Kronen. From this it would appear that the imports for these nine months amounted to 1137 million gold Kronen (roughly 7227,000,000) and exports to 726 million gold Kronen (roughly 7145,000,000) the deficit being 411 million gold Kronen (roughly 782,000,000) or about 36 per cent of the imports. Yugo Slavia could only cover one-third of her imports by exports in 1920 and only about one-half in 1921, whereas Austria, under much less favourable conditions, has now been able to cover two-thirds of her imports by her visible exports. It should also be remembered that in these estimates one of the most important factors of Austria's existence, namely, her invisible trade, is not included. I shall be glad to provide, if desired, an analysis of these trade figures which has just been drawn up for me by Dr. Friedrich Hertz, one of Austria's foremost economists.

Food Subsidies.

Government food subsidies in Austria have been reduced to practically nil and will be totally abolished by the end of April. Food supplies, which hitherto have been responsible for about half of the Budget deficit, will from then on be provided through private enterprise.

Krone Circulation

At the beginning of March of this year the total Kronen circulation amounted approximately to 260 milliards, or the equivalent *at* the then rate of exchange (6,200 Kronen to the dollar) of about \$42,000,000. Quantitatively, this amount of currency at this external value is insufficient for a country with Austria's population and trade. A rise in the value of the Krone would, of course, remedy the quantitative deficiency, but as most authorities estimate the internal purchasing value of the Krone now to be in the neighborhood of 5000 Kronen to the dollar, as opposed to an external value of 6,200, there is not much margin for an immediate rise in value. Sudden improvement beyond the internal purchasing value would create new economic difficulties and is generally agreed to be unwise. The general assumption is that the present British and Czech Government credits and other possible Government credits, in conjunction with the Austrian Government's endeavour to balance the Budget by increased taxation and internal loan, will automatically keep the Krone somewhere in the neighbourhood of 5000 to the dollar, that is to say, the the internal and external purchasing power will gradually be approximated. When the consequent readjustment in industrial and economic conditions, particularly as regards prices, has passed the critical stage and when the permanent foreign credits have been arranged, stabilisation can be effected by the agency of a new Bank of Issue.

Labour Conditions.

There is, comparatively speaking, no unemployment in

Austria. With a population of six and a half million there were only 19,320 unemployed at the end of December. This number, however, had risen to over 28,000 at the end of January and will probably continue to increase for a time as the lessening of the gap between the internal and external value of the Krone deprives the exporter of his fictitious advantage. Austrian labour, however, has exhibited an eminently reasonable spirit. Quite recently the paper trade union agreed to a marked reduction in an agreed scale of wages although the index numbers proved that the cost of living was still rising. I do not anticipate any serious labour disturbances, although until conditions readjust themselves, the Austrian employers, particularly the Austrian exporter, will find it hard to make both ends meet. It must be remembered that the pound, for instance, went as high as 44,000 Kronen in January and by the end of February had fallen to between 25,000 and 27,000.

Water Power.

It is possible that a powerful foreign group may be formed in the near future as a holding Company for the existing Austrian water power concerns and for the exploitation of the hitherto undeveloped water power, which amounts to 90 per cent of the total capacity. The introduction of foreign capital on the scale which is being considered would, naturally, have important bearing not only upon the general financial position of Austria, but upon her economic future. With her water power even partially developed Austria's third most important import, coal, would eventually become infinitesimal, and her principal industries would derive corresponding independence.

(SD) WILLIAM GOODE

March 11, 1922.

AUSTRIAN IMPORT CUSTOMS REVENUE

	Actual Receipts in Paper Kronen (in millions)	Equivalent if duties on gold parity basis (in millions)	Rate fixed by Ministerial Order at which paper Kronen are accepted for Customs gold duties.
1920.			
January	75	12.5	X 6 (since 26.9.19)
February	63	10.5	
March	88.1	13.7	
April	76.3	12.7	
May	86.7	13.2	X 20 (since 23.5.20)
June	98.9	4.9	
July	117	5.8	
August	121.8	4.8	X 25 (since 5.8.20)
September	145	5.7	
October	240.6	9	X 33 1/3 (since 26.10.20)
November	199.3	5.8	
December	322	8	X 40 (since 1.12.20)
	<hr/>	<hr/>	
	1627.7	106.6	
	<hr/>	<hr/>	
1921.			
January	465	9.2	X 50 (since 1.1.21)
February	449	8.9	
March	654	9.3	X 70 (since 1.1.21)
April	784	9.8	X 80 (since 15.4.21)
May	756	7	X 100 (230) (since 1.5.21) ^x
June	714	6.9	
July	908	9.2	
August	907	7.3	X 120 (150) (since 26.8.21) ^x
September	1161	7.3	X 160 (200) (since 23.9.21) ^x
October	1578	7.9	
November	1713	7.3	X 300 (since 27.11.21) ^{x x}
December	2135	6.3	
	<hr/>	<hr/>	
Total 1921	12224	96.5	
	<hr/>	<hr/>	
1922.			
January	2434	7	X 500 ^{xx}

Since February, 1922, the rate has been increased to 500.
In January, 1922, the actual gold parity was 1270 times the paper Krone.

The figures of the second column do not always represent the quotient of column 1 by column 3. In the second column certain reductions are made as not all goods are charged with the full multiple of the third column.

x Higher Multiple for luxuries.
xx Luxuries paying full legal multiple after exchange rate.

See page 5 - Annex 4/7

MEMORANDUM REGARDING AMERICAN VISIT.

Postponement of Liens.

CONFIDENTIALLodge Resolution.

The Lodge Resolution, as passed by the Senate (for text see Annex A) authorises the Secretary of the Treasury to extend for a period not to exceed 25 years the time of payment of the principal and interest of the Austrian debt of \$24,055,708.92 providing he satisfies himself that "substantially all" those other creditor nations mentioned in the Resolution have "substantially" taken action similar to that outlined in the Lodge Resolution.

The Resolution does not waive interest. The interest accrues.

The Resolution includes no undertaking to postpone a possible claim by the United States for reparation. I discussed this point both at the State Department and at the Treasury and came to the conclusion that it had no practical or other importance as, if the existing priorities are retained, no payments on account of reparation can be made to any country until the 20 years postponement of relief loans has expired.

Procedure.

Departmental views in Washington as to what procedure should be taken after the Lodge Resolution had been passed both by the Senate and the House, were indefinite. The Treasury seemed somewhat inclined to think that the United States could not move until Austria had given an assurance that all the other Powers had substantially agreed upon unconditional postponement for 20 years. I pointed out that in any event these assurances must first be given to the Reparation Commission who alone are entitled to release Austrian assets. After conversations with various officials in the State Department, all of whom showed the kindest anxiety to expedite matters, I advised Mr. Prochnik, the Austrian Charge d'Affaires at Washington, to write to the Secretary of State as soon as the Lodge Resolution had passed the House and request early action by the Secretary of the Treasury. I also advised Mr. Prochnik to submit a list of those Powers that had already agreed to postpone and to communicate the conditions of such postponement

namely, the London agreement of March 17, 1921, between the Governments of Great Britain, France, Italy and Japan. This agreement preserves the priority of relief over reparation - a condition precedent to any release by America. I further suggested to Mr. Prochnik to include in his note a request that the United States Government inform the Reparation Commission of such action as it proposed to take and also that the Austrian Government be informed as to any exchange or alteration of Bonds as might appear necessary to the United States Treasury. The United States Treasury seem inclined to think the "B" Relief Bonds must be changed. If that view is correct, all countries holding "B" Austrian Bonds will also be entitled to exchange them.

A resolution by the Reparation Commission recording the consent of all the Powers represented on that body and of those neutrals who previously appointed the Commission as their Trustee for relief loans, would seem to be all that is necessary to postponement and release, except in the case of the United States. As they are only unofficially represented on the Commission and as they also have a Treaty of Peace directly concluded with Austria, it will probably be necessary for the United States to exchange with the Austrian Government separate assurances as to postponement, in addition to unofficial participation in release of assets by the Reparation Commission.

Before I left Washington, the British Charge d'Affaires and the Austrian Charge d'Affaires had, at my suggestion, telegraphed to their respective Governments asking for the latest definite information of such assurances as had been officially received from the various countries regarding postponement of Austrian liens. The British Charge d'Affaires very kindly undertook to communicate the result of his enquiries to Mr. Prochnik. There was complaint in Washington that it had been impossible to ascertain the exact attitude of some of the Governments towards postponement. Statements repeatedly published, apparently on the authority of League of Nations officials, had been found to be consistently untrue. At the time I left Washington, the State Department appeared to be doubtful as to the ultimate consent of Yugo Slavia and Roumania and to be in some perplexity as to whether the Italian and Greek agreements were unconditional.

Trusteeship.

I asked, both at the State Department and at the Treasury,

what the wishes of the United States were likely to be regarding a joint or other Trusteeship for the suspended lien interest and the new loans. I was told that no opinion whatever could be expressed until the question was raised in more practical form. While no definite objection was expressed in Departmental circles to a Trustee being nominated by the League of Nations, it was pointed out that it was quite impossible at the moment to say whether or not the United States would be agreeable to such a proposal. It was suggested by a Senator who is in close touch with the Administration and by several others that the possibility of any difference in views as to Trusteeship might be obviated if the Trustee were appointed by the Reparation Commission, in consultation with the new ~~lenders~~ lenders, and not by the League of Nations. It was emphasised that, in any event, Austria's assets at the end of 20 years would legally revert to the Reparation Commission and that a Trustee nominated by the League of Nations would, de facto, only be Trustee on behalf of the Reparation Commission. I recommend the suggestion for careful consideration.

It was, of course, recognised that the United States could, if it so desired, appoint its own Trustee for its own suspended interest, for instance, the American Minister in Vienna, but it was generally felt that a multiplication of Trustees would be unfortunate, particularly if new loans were to be partly subscribed by the American public. The proposal to float such loans in the United States had the complete approval of the Washington Administration.

THE NEW LOAN.

Morgan's Attitude.

Discussions regarding the new loan are epitomized by my cablegrams of March 17th and March 22nd (Annexes B and C). There is no doubt in Morgan's mind as to their ability to sell half of a five million sterling loan for Austria in the United States if they think it wise to do so. It was new and actually startling to them that Austria was in a position to make an appeal to the public except ad misericordiam. Morgans, if they pursue the project, will desire to satisfy themselves by investigation on the spot as to Austria's ability eventually to become self-supporting.

Morgans did not feel that matters were sufficiently far advanced to discuss details as to the term or interest and sinking fund of the loan. As regards the Trusteeship, Anderson, of Morgans, offhand expressed the view that the appointment by the League of Nations of a Trustee who would also be the nominee of the lenders would be acceptable. But the point was not gone into closely. Mr. Lamont was of the opinion that nothing more could be done until he arrived in Paris on April 15. I agreed. Rumours that the Austrian Government were conducting other negotiations in London, of which I had not been notified, made it impossible for me to take any other course. If those rumours are confirmed Morgans, quite properly, will have nothing more to do with any Austrian loan.

Need of Propaganda.

Both in New York and Washington I was advised by old friends unconnected with and even opposed to Morgans that it was of the greatest importance to secure Morgan's influence for Austria's first attempt to establish credit in America. There Austria is regarded as a hopeless derelict. Practically the only news that appears in American newspapers about Austria refers to American relief work or to the hopeless condition of the country. The report of the Finance Committee, on the strength of which the Senate unanimously approved the Lodge Resolution, was based on a plea to avert starvation in Austria which was described as being worse than ever. To correct such impressions sufficiently to raise a loan, the biggest financial guns must obviously be brought into action. As a co-operating force I have arranged with friends - editors of leading newspapers and those who influence publicity - for the truth to be told to the American public as to Austria's self-help programme and the steps she is taking to put her financial house in order. I have also asked the managers of Mr. Hoover's American Relief Administration to make as much as possible of the fact that American relief in Austria ceases on June 1st of this year. This will visualise to the American public, perhaps better than anything else, that Austria is no longer to be regarded as a destitute country.

Relations with Other Bankers.

In my interviews with various bankers other than Morgans, for instance with Mr. Kahn and the other partners of Kuhn, Loeb and Company. I said that the conversations I had had in New York, although resulting in nothing

definite, had gone sufficiently far to preclude me from discussing, at any rate for the present, the question of an Austrian loan. My position with the Guaranty Trust Company was slightly different, as the question of a loan had unofficially been discussed with their representatives in Europe, but always on the understanding that they worked hand in glove with Morgans. The Guaranty Trust Company will, I think, desire to associate themselves with Morgans in the event of the latter firm issuing a loan.

Governor Strong's Views.

Governor Benjamin Strong, of the Federal Reserve Bank, to whom I gave copies of the memoranda handed to Morgans (Annexes D and E) and to whom I also showed the various cables received and sent, expressed his approval of American participation in an Austrian loan. As regards the question of Trusteeship, he took the view that there should be

- 1) A place for an American banker in the Trusteeship in the event of the Trusteeship not being dependent on or involved with the League of Nations,

or

- 2) If the Trusteeship were in the hands of the League of Nations, that the American bankers interested should have a voice in the approval of the appointment.

As regards the proposed Austrian Bank of Issue, Governor Strong was of the opinion that before the loan under discussion was arranged, a scheme of control for such a Bank, having reasonable autonomy, should be agreed between the Austrian Government and the lenders. He shared the view that the Bank of Issue should only be established as and when those concerned were agreed, but laid stress upon the desirability of the plans for it being arranged in advance, particularly with a view to divorce the Government, so far as possible, from the issue of currency.

Governor Strong also suggested the desirability of an understanding at an early stage between the lenders of the new loan and the British, Czech, or other Governments who might have made interim advances to Austria, as to the priorities of their respective loans. His view was that if Austria, at a later date, issued loans to pay off existing interim Government credits, such loans should be either wholly Government or wholly private loans and that in any event the arrangements for the repayment of these interim Government advances should be clearly defined before an American house issued an Austrian loan.

Governor Strong, I think, considered my Austrian proposal as an example of the practical way in which to enlist the co-operation of the United States in re-establishing economic equilibrium in Europe. On these lines American bankers were quite willing to act, but he pointed out that if American co-operation were really desired, it was more likely to be obtained if American bankers were approached simultaneously instead of after commitment had definitely been made with some issuing house in Europe.

S.S. "CEDRIC"

(SD) WILLIAM GOODE.

March 30, 1922.

My personal conviction is that the German Delegation could with regard to the German-Russian Agreement not act otherwise than they have done. It is certainly regrettable that by this incident the Genoa Conference has been disturbed and nobody can regret this more than the German Delegation themselves which came to Genoa in the hope, and which still hope, that the Conference would bring a step forward to a real peace and to a reconstruction of the international economical life. But the fault of the incident does not lie with the German Delegation; it was their duty towards the German people to conclude the Agreement, when they recognized that by losing anymore time they would have been ^{"done"} ~~overdone~~ by the unfair proceeding of the other nations.

The German Government had negotiated with the Russian representatives already for several months and these negotiations came, a few weeks ~~ago~~ before the Genoa Conference, to a point that an Agreement could have been signed with them, which would have been nearly in every word the same agreement as has now been concluded in Genoa. I have personally seen, before I came to Genoa, the text of the intended agreement and can therefore confirm that it corresponds nearly in every word with The Rapallo Agreement. But the German Government wished to come to Genoa with completely free hands and not to prejudice the Conference by coming beforehand to terms with the Russians. They therefore postponed the negotiations hoping that in Genoa a general agreement with all nations would be arrived at, on about the lines upon which they had negotiated in Berlin with the Russians. This fact proves that the German Government came with the best intentions and in the fairest spirit to Genoa. Then the Allied did what Germany had intended to avoid. Instead of continuing the negotiations in the official commission, to which also Ger-

many

suddenly
many belongs, we ~~certainly~~ received information that very serious negotiations were going on at the Villa Croce. These were not simple pourparlers, they were official negotiations of the Delegates with experts, interpreters, secretaries, protocols and so on. The only practical difference between these secret negotiations and those of the official commission was that Germany was excluded from the former. The German Delegation have then on repeated occasions left no doubt that they would consider themselves free also to act on their part if these things went on. But no attention was given to these warnings. And when it became apparent that the interests of Germany were not only ignored but seriously prejudiced at these meetings, the German Delegation were obliged to act.

It may be that it was not the intention to sign at the Villa Croce a formal agreement. But if all countries were agreed at these negotiations and if such agreement had then been officially submitted to the official Commission of the Conference, then such an agreement would have been carried through by a great majority, perhaps against the protest of Germany alone.

The great danger of such an agreement was that Germany would have been asked to agree that article 116 of the Peace Treaty was officially embodied in the agreement between the Russians and the Allied. Germany could then have been asked that all its sales to Russia were not paid but simply credited on reparation account. Germany would for a long time have been unable to negotiate on a commercial basis with Russia, to obtain for his sales to Russia raw material in exchange and so on. The Reparation Commission would have simply ordered Germany to make such and such deliveries to Russia. There would have been no possibility for Germany to take part in the economical reconstruction of Russia as an equal partner. The German Government could never have agreed to such a result of the Genoa Conference, and as
there

there was a great danger that such a decision could be arrived at by a majority of votes, as described above, we were simply obliged to act and to come with Russia to an agreement on a fair and equitable basis.

As a matter of fact the German-Russian Agreement does harm to nobody; quite to the contrary it shows the only possible way in which the reconstruction not only of Russia, but of the economical life of whole Europe is possible. Nobody will seriously believe that Germany will be able to pay for reparation the sum which has been fixed at the London Conference. It will therefore be all the more impossible that Germany could, in addition, pay many milliards of goldmarks under article 118 to Russia; vice versa nobody believes that Russia will be able to pay its pre-war and war debts to the German holders of bonds, to the German proprietors of property in Russia and so on. It was therefore reasonable to recognize these facts, to simply balance the accounts and to start afresh, with clear books. No business man will carry forward year after year claims in his books of which he is sure that not one penny on them will be paid; he will simply clear the accounts, and why should diplomats act otherwise ?

Our competitors complain of our competition in the world's market. But we are obliged to work, to produce and to export as much as possible. It is our only chance ! If we get the possibility to develop afresh our trade with Russia gradually, which will require enormous quantities of industrial products for its reconstruction, we shall have an outlet for our production, in a direction where we can find in exchange the raw materials necessary for us, and the world's market will thus be relieved for that extent from our competition. But to be able to commence seriously commerce with Russia we had first to settle our old ac-

counts

counts of pre-war times and war times and to make formally peace with Russia. That is the only object of the German-Russian Treaty.

In order to be able to commence the commercial relations it was also necessary to renew diplomatic relations. As long as this was not done we could not send our representatives, consuls etc. to Russia, which is a necessary basis for the reconstruction of commercial relations with such a large and somewhat disorganized country.

The talk which appeared in the French newspapers and also in one British newspaper about a secret military convention which is said to have also been concluded with Russia, is a complete nonsense and absolutely untrue. It is a pure invention of French newspapers.- The German Delegation are attacked because they have concluded here separately an agreement with Russia, but only the form is attacked, because nobody can seriously object against the contents of the agreement, which is practical business. That is why something else had to be found and the French militarists knew nothing better than to invent this secret military convention. The idea is so absurd that it should really not be worthwhile to talk about it. A war would be the worst thing that can happen to Germany for many many years to come, and anybody who knows the chiefs of the German Delegation in Geneva should know that they would never dream to conclude a military convention with any country or do anything that could create military difficulties.

Referred to in letter of *J. L. Jr. 4/28/22*

CONFIDENTIAL

Paris, 18 rue de Filsitt.
28 April, 1922.

Subject: Impressions of the Genoa Conference.

My dear Mr. Secretary,

I arrived in Genoa Thursday April 20th, returning to Paris Wednesday April 26th. Past experience has convinced me that from five to six days at a stretch is the maximum time that one can work effectively on an informal mission of this character. I plan returning for another short visit about May 5th, if the Conference remains in session.

Mr. Child, the American Ambassador to Italy, who is at Genoa was extremely kind and in every possible way facilitated my work. The Department is fortunate in having this very able diplomat at Genoa at this time. Mr. Child's agents are collecting and forwarding all Conference documents, and therefore it was unnecessary for me to even attempt to duplicate this work which Mr. Child had so well in hand.

At Genoa I found old friends of preceding Conferences of various nationalities who willingly expressed their impressions on the course and conduct of the Conference. The situation as you will realize is kaleidoscopic. Detailed reports of happenings are cabled to the American press by a varying staff of between twenty and forty American press correspondents in addition to other American "special writers" in Genoa. While many of the press reports are colored, nevertheless the important Notes have been cabled in their full text and through such Notes it is possible to follow quite accurately the course of the Conference. In view of the foregoing it is with hesitancy that I even venture expressing the following impressions as I realize that inevitable changes in national policies at Genoa may upset the very foundation upon which my surmises are built. My report must therefore be accepted with all reserve.

I came away from Genoa after this visit with the firm conviction that our Government had been extremely wise and farsighted in its determination to refrain from participation in this Conference. While the results of the Conference may be disappointing to certain Governmental heads now at Genoa, I am nevertheless constrained to believe that the results will not be entirely unfruitful. A good airing of the burning questions now under consideration at Genoa while occasioning much *hard heart* burning will, I believe, pave the way for later constructive work in which, in my humble opinion it would be advantageous for us to participate. I feel that the impression undoubtedly created in America by the various happenings at Genoa will undoubtedly stimulate the feeling that Genoa is a sort of "cess-pool of political intrigues", Machiavelian

machinations, etc. This impression should not be accepted without great reserve. As a matter of fact, while there are undoubtedly certain Machiavelian type of gentlemen at Genoa, I can only think of a most restricted number efficient on these lines. Of this number the majority are Bolsheviks, with perhaps only one or two outside such ranks. By far the great majority of the members of the Conference are men of high purpose who are honestly endeavoring, so far as their nationalistic lights will permit, to better the general European situation. They are however nervous and over-trained, and on this account quite frequently give the wrong impression of Machiavelian tendencies.

The work of the Conference is divided into five broad classes:

- A - Finance.
- B - Economics.
- C - Transport.
- D - Russia.
- E - Non-Aggression.

The work of each one of the foregoing classes is confided to a Committee (often assisted by Sub-Committees) who are charged with drafting resolutions for presentation and formal adoption of the Conference in plenary session. The work of each one of these Committees and suggested forms of resolution as a basis for discussion had been drawn up by Allied representatives who met in London some weeks ago to draw up the Program.

A - FINANCE. This Committee has practically completed its work and its report has been published. The report is quite academic in character and contains much sound advice. It has been carefully drafted so as to steer clear so far as possible of debatable premises concerning reparations and foreign loans. Its principal recommendation, which I hold to be constructive, is the proposal for an early meeting of representatives of central Banks. I hope that our Government will participate in such meetings and will be represented, if only unofficially, by the best talent we have in such affairs. I do not make this observation from any altruistic motive. In view of our special position as regards our gold holdings and related currency position, we have a most decided practical national interest in meetings of this character, and in my opinion it is incumbent upon us to adequately protect ourselves by representation.

B - ECONOMICS. The work of this Committee had not reached its final stage when I left Genoa. From what I gathered the same considerations as to non inferences of the foreign loan and reparation features will hold in the final draft as with the Finance resolution. My surmise is that the final resolution will also be highly academic in character containing much sound economic advice together with an elaboration of the so-called Ter Meulen or other well known credit plan. It will not be harmful, though I doubt if it will give any material result.

C - TRANSPORT. The work of this Committee has not yet reached its final stage. It is largely, not exclusively, concerned in considering recommendations of the previous Barcelona and Porte-Rosa Conferences. These two Conferences were called for the purpose of simplifying and expediting passenger and freight transport in Europe. The questions treated are technical in character. This Committee has encountered some difficulties as the secretarial work was not well done. In addition some political considerations have crept in which are giving trouble. However all are hopeful of a final resolution being adopted leading to immediate ratification on the substantial lines of the Barcelona and Porte-Rosa findings. From a practical point of view the work of this Committee is of a most constructive order.

D - RUSSIA. As you know, this question is the one most difficult of solution at Genoa. I am still of the opinion that it was dangerous to convoke the Russians at Genoa. However they arrived duly primed for a "gallery play". Their Delegation was at first quartered some miles outside the city but are now installed in one of the large hotels in the center of Genoa. The impression I gathered is as follows. The Bolshevik leaders fully recognize that the internal situation of Russia is about as bad as it can be and that therefore their own position and possible existence is becoming precarious. They must maintain "communist ideas" but at the same time they require "political or bourgeoisie support"; the latter preferably in the shape of straight loans to the Bolshevik Government but this being admittedly impossible then other forms of outside support. It is apparent that they would be extremely reluctant to quit Genoa without having arranged for the de jure recognition of their Government together with some adopted scheme of financial and economic exchange with the outside world. They must also return to Moscow with as much additional "window trimming" as possible. The real question therefore resolves itself into one of how far they must go in compromising their position on communism to get this support.

It is generally assumed that Mr. Lloyd George inclines to the de jure recognition of the Bolshevik Government and that he will use his influence to this end provided he can get what he considers the best possible compromise out of the Russians. Mr. Lloyd George's reasons for this are well known to you and need not be elaborated herein. It is not yet clear how far the others will follow him, though my impression is that if nothing untoward happens he will get a considerable, if not unanimous, following.

A pure guess on my part as to the outcome is the following. So far as the position of Russia's debts is concerned, the Bolsheviks will agree to the recognition of such debts in exchange for the Allies agreeing to a long postponement of date of payment, a possible writing down of certain portions of the debt, together with cancellation of long deferred adjustment of interest. This is largely political eyewash, but it is good practical politics from the home consumption point of view, both of Allies and Russians.

So far as the re-establishing of foreign business in Russia

is concerned, the Bolsheviks still maintain their nationalisation (or, in other words, confiscation) ideas for practically all important industries as well as an absolute governmental control of exports. For this reason it will be difficult, if not impossible, to reach any trade agreements at Genoa at this time. My impression is that Mr. Lloyd George will endeavor to overcome this by ignoring such confiscatory acts on the broad grounds that "internal economic arrangements in Russia are the affair exclusively of the Russian people". Therefore, to avoid committing outside nations to the Russian thesis, the agreement with the Russians will simply set up the fundamental machinery upon which each individual outside Power may itself base its economic relation with Russia. It will provide that Russia effects a judicial procedure and machinery necessary for the protection of the personal rights and liberty of foreigners engaged in economic pursuits within Russia together with some broad provisions for the protection of property rights of foreigners. It is assumed that the agreement will contemplate the setting up of courts, with neutral judges sitting with Russian judges which, while operating under Russian procedure, would nevertheless assure a certain justice in juridical determinations concerning foreigners in Russia. It would then naturally follow that by means of independent trade arrangements effected between individual Powers and Russia it would be possible to gradually force the Russians to depart from their radical views. The agreement will also doubtless provide for the setting up of the "International Corporation" for the extension of credits to Russia. The plan of this Corporation exists today and has doubtless been forwarded to the Department by Mr. Child. Briefly it is a sort of parent Corporation with headquarters in London under the leadership of which each of the Powers, if it so desires, may themselves set up a special organization to handle their own credits. In accordance with my understanding the financial support of the parent company today has been agreed to by Great Britain and Belgium. Other Powers will undoubtedly collaborate in its financial support, though this is not altogether clear. The provision for the organization of the International Corporation does not impress me very much. It is not a particularly sound business phase in its present shape. I believe it has been framed largely for the purpose of eyewash and so as to give the Russians something to carry back to their public opinion as an accomplishment. I may be mistaken but I doubt if in the long run any substantial sums of money will be practically forthcoming to meet any comprehensive economic operation under this plan.

I would also surmise that the final agreement with Russia would contain a provision for the setting up of a small Committee of representatives of foreign Powers to handle Russian affairs. Being rather of a suspicious nature, I might even suspect a desire to use the administrative organization of the so-called International Corporation for this purpose, though I may be completely wrong in this particular.

The situation with regard to Russia is changing every minute. It will undoubtedly be largely cleared up even before this letter reaches you. I can only give impressions of the minute.

I was considerably embarrassed during my visit at Genoa to

receive an unexpected visit of Mr. Krassin to my room at the hotel. He was accompanied by an indiscreet friend of mine who remained during the whole course of his conversation. I was embarrassed but had no other alternative than listen. I told Krassin and my friend that if Krassin or he were to say that they had seen me I would deny it, and that he was at liberty to take the same action in the event I made any reference to his conversation. Krassin agreed and I have no reason to expect bad faith on his part. As a matter of fact he can have nothing to say as I kept my mouth shut. Under seal of confidence he handed me the Enclosure A which, while not comprehensive, nevertheless indicates the general lines of the then Bolshevik position concerning foreign trade. His conversation was only concerned in an elaboration of the ideas expressed in the enclosure so it is unnecessary to go further into it here. Krassin however in conversation did compare the present Bolshevik regime with the reconstruction regime following the French revolution. He only half heartedly presented the nationalization idea explaining that this was only a transitory reconstruction phase of the revolution, that obviously foreigners would be reluctant to participate in Russian reconstruction on this basis and that the Russians could be expected to gradually make further radical departures from their present theory of government and personal and property rights. As an instance of the possibilities in this direction, he stated specifically that the Harvester Company and the Westinghouse Company had both quite recently effected arrangements with the Bolshevik Government under which their properties in Russia have virtually been returned to them in their entirety. He admitted that similar concessions could be made forthcoming by direct negotiation with the Bolshevik Government.

E - NON AGGRESSION. The position of this question is confused at the present time due to the Anglo-French misunderstandings. However all with whom I talked in Genoa fully realized the very bad impression generally created throughout the world by the Genoa Conference and that the Non-Aggression Pact of Agreement was the best possible way of restoring confidence and leaving a "good taste" in the mouth of the world at large. I am inclined to believe that if the Conference does not abruptly close that a formula of Non-Aggression will be found and adopted at Genoa. It will necessarily contain certain reserves but all with whom I talked appreciated its importance and I believe all would go more than half way to meet on a common agreement on this account. All appreciate the important bearing on American public opinion of a favorable determination on this question.

The Russo-German Treaty. This occasioned a quite critical incident. I enclose herewith, as Exhibit B, a statement of the German position which was handed me quite informally by one of the German representatives at Genoa, and which I am quite certain had Rathenau's O.K. before being passed on to me. The Treaty is now being examined here in Paris by the Legal Service of the Reparation Commission for the purpose of determining whether or not it contravenes the provisions of the Versailles Treaty. I am informed that while their inquiry is not as yet complete, there nevertheless appears unanimity in the opinion that it does not contravene the provisions of the

Treaty. It will probably come before the Commission shortly for final determination and a somewhat stormy session may result. However, I believe the views of the Legal Service will be sustained. On the other hand, the whole performance on the part of the Germans was stupid in the extreme. What the Germans really needed in this first conference in which they participated on an equal footing with the others was to create an atmosphere of confidence. I have no doubt that the Germans have more or less foundation in fact for the views as expressed in the attached enclosure, but this does not in my opinion acquit them of stupidity. There was great difference of opinion within the German Delegation itself. Bergmann confidentially told me that he, Melchior and Hermes (the German Minister of Finance) were absolutely opposed to Rathenau's handling of this question and had so expressed themselves. According to Bergmann, he and the other gentlemen mentioned seriously considered abandoning the German Delegation and were only restrained from purely patriotic motives. Bergmann said that it was the sole work of Rathenau, who was a "man with exaggerated ego and exalted conceit". The incident has now largely passed in the stream under the bridge, but the poison and lack of confidence it has left in the air is extremely regrettable. The whole incident must have given the Bolsheviks much pleasure and I would not be surprised if they would endeavor to entice the Turks and others into somewhat similar incidents.

Faithfully yours,

JAL/BD
2 incls.

James A. Logan, Jr.

The Honorable Island Harrison,
Assistant Secretary of State,
State Department, Washington, D.C.

Referred to in letter of

Logan 6/9/22

Final Draft
CONFIDENTIAL

REPARATION COMMISSION

CONFIDENTIAL

MINUTES NO: 294.

Meeting of June 6th and 7th 1922.

The Meeting opened at 11 a.m. M. Louis DUBOIS (Chairman)
in the Chair.

PRESENT:-

Sir John BRADBURY and Mr. KEMBALL-COOK (United Kingdom)

M. Louis DUBOIS and M. Mauciere (France)

The Marquis SALVAGO RAGGI and Signor d'AMELIO (Italy)

M. DELAGROIX and M. BEMELMANS (Belgium)

Attended unofficially:

Mr. BOYDEN and Mr. LOGAN (United States of America).

The following were in attendance:

Mr. BALTER, General Secretary.

1. M. DELACROIX stated that he had been asked by the Loan Committee to address the following question to the Reparation Commission.

2. "Acting on your instructions the Committee have commenced the study of the subject of a foreign loan entrusted to it by the Commission. Before proceeding further, however, the Committee consider it necessary to ask the Reparation Commission whether the words "regard being had to its obligations under the Treaty of Versailles and in particular under the Schedule of Payments of May 5th 1921," are to be interpreted as meaning that for the purpose of its deliberations the Committee must treat the payments prescribed by the Schedule of Payments as an unalterable obligation, subject only to the power of the Reparation Commission from time to time in the future to vary them in accordance with the provisions of Article 234 of the Treaty, or whether (without of course in any way engaging the responsibility of the Commission) they are at liberty to examine the possibilities of solutions involving modifications of those arrangements."

3. The Chairman : " Our colleague, M. Delacroix has, on behalf of the Committee of Experts, whose Chairman he is, asked how the Commission interpreted its Decision of April 4th in which it had entrusted this Committee with the duty of considering and making a report upon the conditions under which the German Government/^{might} "in view of its obligations as these are defined by the Treaty of Versailles and in particular, by the Schedule of Payments of May 5th 1921" negotiate loans abroad the proceeds of which would be applied to the redemption of a part of the capital reparation debt.

4. " The terms of this decision do not appear to me to be open to any doubt. They can only be interpreted in the sense defined in the draft reply transmitted by the French Delegate to his colleagues i.e. :

5. "The loans must have the result of facilitating Germany's fulfilment of her obligations. In particular, the Commission would agree that the Committee should give its opinion on the manner in which the proceeds of the loan should be applied to acquitting Germany's obligations, and, if the occasion arose, on the modifications which would result for the arrangement of the next annuities".

6. "But a reduction of Germany's obligations themselves as these result from the Treaty of Peace and the Schedule of Payments must be neither one of the conditions of the loan nor its result".

7. 'In order to obtain conviction, without any room for doubt, as to the meaning of the decision of April 4th it is sufficient to recall the circumstances in which this decision has been taken.

8. 'On March 11th last the Interallied Conference of Finance Ministers unanimously requested the Governments to intervene with their Delegates on the Reparation Commission "in order to point out to them the necessity of considering as soon as possible solutions enabling the payment of reparation to be assured, both by the improvement of German finances by means of an effective control and by the issue of foreign loans by Germany, secured on the proceeds of the customs or other resources of the Reich chosen by the Reparation Commission and destined to pay off a position of capital of her debt".

9. 'The Ministers have also considered as their statements inform us : "the debts contracted by the Allied European powers amongst themselves during the war" but they express no wish in this connection.

10. 'On March 14th Sir John Bredbury laid before the Commission a draft decision for the formation of a Committee of Experts to be entrusted with the duty "of conducting an enquiry and reporting to the Commission concerning the possibility of the German Government contracting loans abroad, the proceeds of which would be applied to a partial reimbursement of the Reparation Capital Debt".

Sir John Bradbury indicated the principal points to which the Committee was to direct its attention ; The amounts, conditions, guarantees, control, etc.

11. This draft raised difficulties amongst the members of the Commission, and it was only on April 4th, after semi-official or unofficial discussion that the final decision was taken which instituted the Committee of Experts. This decision ran as follows :- 'An expert Committee would be appointed to consider and report to the Commission on the conditions under which the German Government, regard being had to its obligations under the Treaty of Versailles, and in particular under the Schedule of Payments on May 5th 1921, should raise foreign loans to be applied to the reduction in part of the capital of the Reparation Commission Debt.'
12. There then follows indications similar to those in Sir John Bradbury's draft as to the means, conditions, guarantees, control, etc.
12. This decision differs essentially from Sir John Bradbury's draft owing to the addition to the words : "regard being had to its obligations under the Treaty of Versailles and in particular under the Schedule of Payments of May 5th 1921.
13. These words were introduced in the text at the request of the French Delegate in order to prevent the possibility of the question of the reduction of the German debt being raised by the Expert Committee. If, therefore, in order to reply to the question raised by the Committee

of Experts, we must confine ourselves to interpreting our decision of April 4th, there is no doubt that our interpretation must be in the sense of the draft reply prepared by the British Delegate which would authorize the Expert Committee to consider a reduction of the German Debt.

14. Without wishing in any way to bind his Government, the French Delegate adds that in no case this reduction, even if it were considered necessary which is not his opinion cannot be considered without considering at the same time the reduction or cancellation of the Interallied Debts. But this latter point cannot be considered at present as the United States Government has clearly made known its intention of abandoning none of its claims against the Allies.

15. The Commission, moreover, cannot consider the question in this manner even in the form of a simple agreement with the intentions of the Expert Committee.

16. These are the reasons which have led the French Delegate to draft the reply to the Expert Committee which he has submitted to his colleagues."

Sir John Bradbury stated that when he agreed to the insertion in the terms of reference to the limitative words to which the Chairman had referred he had taken the object of them to be to prevent the Commission being in any way committed to taking into consideration any suggestions which might be made for modifying the obligations of Germany under the Schedule of Payments. He had not contemplated that they would be held to preclude the Committee from discussing and commenting upon any matters which the Committee itself might regard as relevant to the subject matter of its enquiry.

The Committee had, however, now informed the Commission, through Monsieur Delacroix, that in its opinion no progress was possible unless the field of its enquiry could be extended in the manner indicated.

It appeared to Sir John Bradbury that whatever might have been the precise intentions of the Members of the Commission in introducing and accepting the limitative words, the situation which had now arisen was one which must be considered on its merits. Admitting, for the purpose of argument, that the terms of reference as they stood forbade the Committee to extend their enquiry in the manner desired it was clearly open to the Commission, if it saw fit, to remove the restriction. If the Commission decided that it was desirable to remove the restriction whether it proceeded by the method of interpreting or by that of amending the original terms of reference was not a question of any real importance.

The French Delegate had stated that France could not accept a reduction of the debt owing to her by Germany except as part of a general readjustment of international indebtedness. Sir John Bradbury was entirely of M. Dubois's opinion that no economic resettlement of the world is possible without such

7

general readjustment. But he was equally convinced that until a provisional understanding had been reached in regard to German reparations no basis for discussing such a general readjustment existed.

It was an illusion to suppose that Great Britain was anxious to secure advantages for Germany by means of the reduction of any enforceable French claim against Germany - a still greater illusion to suppose that Great Britain was willing to pay for such a favour to Germany either by reducing her own reparation claim or by writing down the debt owing to her by France.

Great Britain was anxious not only that France should recover from Germany - but that she herself should recover from Germany - the maximum amount which it is materially possible to make her pay.

She believed, however, that the German debt as it stands under the Treaty and the Schedule of Payments was to a large extent a bad debt and in fact irrecoverable, and that attempts to enforce it in its entirety would merely have the result of destroying the social and economic fabric of Germany and so ultimately making irrecoverable even that part of it which, with a more moderate policy, could undoubtedly be collected.

It had become obvious that without a foreign loan Germany even given good intentions, would be able to restore order in her internal finances with difficulty if at all, even if she were relieved entirely for a considerable period from reparation payments.

It was probably - but it was a point on which he awaited the opinion of the Loan Committee - that so long as the Schedule of Payments demands were maintained as an unalterable obligation the basis of credit necessary to enable Germany to raise a foreign

loan could not be found.

It is apparent on the best expert advice available, that if the Peace Treaty obligations of Germany are for a period of years reduced to gold marks per annum (with or without a modification of the present value of the capital indebtedness) foreign loans on definite terms and to definite amounts are likely to be forthcoming, but that without such reduction a restoration of German credit cannot be hoped for, there would be a basis on which the Allied Governments could discuss the general problem of international indebtedness.

Such an opinion expressed by a body of expert financiers in no way committed the Allied Governments in regard to their decisions either upon German reparations or Inter-Allied indebtedness. If a solution of the reparation question proved, in the opinion of practical financiers, to be possible on a credit basis provided that certain definite concessions were granted either in regard to time or amount, Germany's creditors generally would be able to consider first whether this method of solution was worth the sacrifices demanded of them and secondly precisely what concessions in regard to their own international debts were necessary to make it possible for them to afford to make the sacrifices.

If they decided that the advantages of the credit solution were not worth the sacrifices or if they were unable to obtain from their own creditors the concessions necessary to enable them to make them, it would always be open to them to content themselves with what could be extracted from Germany year by year by such means of pressure as they were in a position to employ, and in so far as the results of this procedure fell short of their theoretical due to ask for a pro-

portionate indulgence from their own creditors.

Sir John Bradbury was not in a position to say what concessions if any could be granted by Great Britain in respect of the French debt, still less whether any could be granted by America either to France or to Great Britain, but it was obvious that if a practical solution of the German reparation obligation were in sight and required only concessions on the part of Great Britain and America to make it acceptable by France, these countries would incur a heavy responsibility at the bar of history if they were to display less consideration to their Ally than that Ally herself was prepared to show to the beaten enemy.

But before any basis could exist for determining what sacrifices ought to be asked from Great Britain or America, it was necessary to determine how much could be extracted from Germany. If there were a reasonable probability of securing the whole 80 milliard of gold marks - the present value on a sanguine estimate of the obligations imposed by the Schedule of Payments - the question of reduction or cancellation of Interallied indebtedness might not arise at all. Concessions which would be appropriate to a halving of this debt would be inappropriate to reduction of it by a third or by two-thirds.

Further, the atmosphere for the grant of concessions at all could not be expected to be favourable until it is clear that the concessions if granted will result in a settlement of the whole problem.

It would serve no useful purpose, even if it were practicable, to reduce the German liability by an arbitrary amount and inter-allied indebtedness by an arbitrary percentage, if there were no better security for the recovery of the reduced amount than for the recovery of the present debt.

This would be a mere continuance of the procedure of successive amputations to which the French people rightly object and an inauguration of the same procedure in respect of interallied debts which was not likely to be any more popular with the creditor allies.

The time had now come to seek a basis for a final and permanent settlement. Towards this the first step was to obtain a sound expert opinion upon the problem of the conditions necessary for the re-establishment of German credit, so that the Reparation Commission and the Allied Governments might, in the light of that opinion, consider in all independence whether on the basis of reciprocal compromise the credit machinery of the world could once more be set in action.

It is for this reason that Sir John Bradbury regarded it as essential that the Loan Committee should be permitted to consider in full liberty and report to the Commission on all matters bearing on the question of the re-establishment of German credit.

5.6.22

4. The Marquis SALVAGO RAGGI was of the opinion that it would not be proper to impose limits on the examination which the Committee of Bankers might consider necessary in order to submit to the Commission a draft international loan which was likely to succeed. This limitation was not advisable because:

(a) Any proposal made by the Committee would not bind the Commission, which had no other powers than those conferred upon it by Article 234. In consequence it might, or might not, consider the proposals made to it, submit them as they stood to the Allied Governments, modify them or comment on them as they consider necessary.

Any danger that the consequences of the Committee might bind the Commission or the Governments, even by a purely moral obligation, was therefore excluded.

(b) The object of limiting the liberty of the Committee in regard to the proposals to be made to the Commission would be to avoid an opinion by the Bankers on Germany's capacity of payment or on the propriety of reducing German debts in any manner becoming public property. But this object would not be attained for this question had already become public knowledge from another source, and it must be foreseen that the bankers would give their opinions with all the greater freedom after the Committee had been dissolved, if they had been prevented from giving their opinion in a report to the Commission.

(c) The Committee's proposals concerning the complete solution of the reparation question would also assist the Governments in the discussion of other problems which were closely bound up with this question and, in general, in the restoration of Europe. It was clear that

the inter-allied debts had to be considered.

The statements which they had just heard showed that all the Delegates were unanimous on the connection between reparation and the inter-allied debts, and it was to be hoped that this conviction would allow the French Delegate to agree with the opinion of his colleagues.

As a result of this unanimity a positive opinion would be obtained from the Committee which, if this were not the case, would probably limit itself to stating the impossibility of placing a German loan abroad, which would entail a situation, the gravity of which it was unnecessary to point out both to Germany and to the Allies.

5. M. DELACROIX then made the following statement:-

"If I had considered the request addressed by the Committee of Bankers to the Reparation Commission, a dangerous manoeuvre against France intended to make the international loan dependent on a fresh reduction of her credit, I should have refused to be its bearer. But I think that I can state that the Bankers' opinion is free from any partisan spirit.

After an exchange of views during six meetings, they have, for various reasons, come to the unanimous conclusion that a limited loan, even if well secured, would have no chance of interesting the international investor, if it did not appear to be a stage towards a general solution of the Reparation problem which is oppressing Europe. Having reached this conclusion, the Members of the Committee have declared themselves disposed, if they were not open to criticism for having exceeded the strict terms of their mandate, to push their examination further and to contemplate all the conditions which the issue of foreign German loans might demand without excluding those necessary for the re-establishment of Germany's credit abroad. In doing so the Committee has no intention of encroaching on the powers of the Reparation Commission, nor on those of the Governments, but only of giving them advice which might serve as a point of departure for an exchange of opinions between them and might doubtless increase the possibility of the issue of a loan by Germany. This is the meaning which the British Delegate attributes to the request of the Bankers' Committee; he has stated that their opinion might be the starting point of a successful attempt to bring the reparation question on to the way of

practical realisation, and to consider the whole of the problem of the Inter-Allied debts, adding that without this necessary preliminary starting-point, the consideration of the problem of Inter-Allied debts would be inevitably continually adjourned.

In these circumstances it appears to me impossible to adopt an interpretation which would have the effect in America of encouraging the opinion that we have, even without in any way binding the responsibility of the Reparation Commission and of the Allied Governments, refused the opinion of experts given on purely banking grounds."

6. Mr. BOYDEN made the following statement: "While I have always regarded the mandate of the Loan Committee as instructive, and felt that only a negative answer would be possible under its terms, I have ~~in~~ always expected that if this proved to be the case, the Commission would be glad to receive suggestions from the Committee as to any changes in conditions which, in their judgement, would make a loan possible. My personal judgment is therefore that the Committee should now be given liberty to make such suggestions.

As my colleagues have indicated that in their minds there is a close relation between changes in Germany's indemnity obligations and the Inter-Allied debt, I must add that this subject is not within my competence. The Inter-Allied debt has already been the subject of legislative action by the United States Congress, and a Committee appointed under that legislation is alone competent to deal with it.

I am of opinion that any emphasis on a possible relation between the two subjects is likely to make more difficult the result which seems to be hoped for. I note that the declaration of the French Delegate contains a just appreciation of this point of view.

I will further add that personally I have never seen any connection between the two matters. No one is likely to suggest that Germany should be relieved of any obligation which she can reasonably meet. The only effect of a change in the indemnity will, therefore, be to increase not to diminish the amounts likely to be received from Germany. I feel that the Allies have already lost considerable sums which under a different policy might have been obtained from Germany, and that more will be lost unless the policy is changed. If this opinion is well founded, the changes likely to be suggested cannot result in any sacrifice by any Power."

7. Sir John BRADBURY then proposed the following resolution:-

"The Commission intends that nothing in the terms of reference should be held to preclude the Committee from examining any of the conditions which may be necessary for the raising of external loans by Germany, including such as relate to the general re-establishment of her external credit.

Indeed, any suggestion which the Committee may be able to offer from this point of view, without of course engaging the responsibility of the Commission, could not fail to be of the greatest value."

8. The Commission decided in favour of this resolution by a majority, Sir John BRADBURY; Signor d'AMBELLO and M. DELACROIX voting in favour and M. Louis DUBOIS against. Mr. BOYDEN expressed his personal agreement with the majority.

9. The CHAIRMAN expressed his regret at being unable to associate himself with his colleagues' opinion because a careful study of the question obliged him to maintain the opinion which he had expressed at the first meeting at which the question had been dealt with.

10. He added that the Committee was none the less at perfect liberty to take account of the majority vote to continue its studies on a wider scope, the CHAIRMAN being convinced that the Committee would do so with all the necessary discretion.

11. The Meeting rose at 12 noon on June 7th.

Referred to in Logan's letter of June 15, 1922

REPORT OF THE LOAN COMMITTEE
TO THE
REPARATION COMMISSION.

The Loan Committee has the honour to submit to the Reparation Commission the following Report stating the result of its deliberations between May 24th and June 9th 1922.

TERMS OF REFERENCE AND SCOPE OF ENQUIRY.

The terms of reference under which the Committee was appointed were the following:

"An Expert Committee would be appointed to consider and report to the Commission on the conditions under which the German Government, regard being had to its obligations under the Treaty of Versailles, and in particular under the Schedule of Payments of May 5th 1921 (French text: "en l'etat de ses obligations telles qu'elles sont definies par le Traite de Versailles et en particulier par l'Etat des Paiements du 5 Mai 1921") could raise foreign loans to be applied to the redemption in part of the capital of the Reparation Debt.

The Committee would in particular consider:

(1) The terms on which such loans could be raised and the amount which might reasonably be expected to be obtained in the near future and in particular in the course of each of the next two years.

(2) The security which could be made available for potential lenders without undue prejudice to the future interest of Reparation.

(3) --The manner in which the revenues and other assets assigned to the service of the loans should be controlled and administered and the relations to be established as between the German Government, the representatives of the lenders and the Reparation Commission.

The Committee was instructed to consult with persons having practical experience in connection with the issue of Government loans in New York, London, Paris, Rome and Brussels, Amsterdam, Berne, Berlin and elsewhere, with a view to the formation of a practical plan to be submitted for the approval of the German Government and the Reparation Commission.

The Committee, after considering these terms in both texts (which they were informed were equally authoritative) felt some doubt as to their scope. On June 1st they therefore addressed the following question to the Reparation Commission :

"Acting on your instructions the Committee have commenced the study of the subject of a foreign loan entrusted to it by the Commission. Before proceeding further, however, the Committee consider it necessary to ask the Reparation Commission whether the words "regard being had to its obligations under the Treaty of Versailles and in particular under the Schedule of Payments of May 5th 1921", (French text: "en l'etat de ses obligations telles qu'elles sont definies par le Traite de Versailles et en particulier par l'Etat des Paiements du 5 Mai 1921") are to be interpreted as meaning that for the purpose of its deliberations, the Committee must treat the payments prescribed by the Schedule of Payments as an unalterable obligation, subject only to the power of the Reparation Commission from time to time in the future to vary them in accordance with the provisions of Art. 234 of the Treaty or whether (without of course in any way engaging the responsibility of the Commission) they are at liberty to examine the possibilities of solutions involving modifications of these arrangements."

On June 7th the Committee received the following reply from the Reparation Commission:

"In reply to the question addressed orally on behalf of the Loan Committee by its President, the Reparation Commission has the honour to inform the Committee that, at an official meeting held this morning, it took the following resolution:

"The Commission intends that nothing in the terms
 "of reference should be held to preclude the
 "Committee from examining any of the conditions
 "which may be necessary for the raising of external
 "loans by Germany, including such as relate to the
 "general re-establishment of her external credit.
 "Indeed, any suggestion which the Committee may be
 "able to offer from this point of view, without of
 "course engaging the responsibility of the
 "Commission, could not fail to be of the greatest
 "value."

"This decision of the Commission was taken by a majority, the British, Italian and Belgian Delegates voting in favour of it, and the French Delegate against it. The American Unofficial Delegate expressed his personal agreement with the majority."

THE POSITION OF THE COMMITTEE IN RELATION TO THE COMMISSION.

On receipt of this reply, indicating that the chief creditor of Germany did not desire that any recommendation should be made which would involve the possibility of new limitations on Germany's obligations, the Committee decided that they could not usefully, for the time being, continue their enquiry and that they ought therefore to confine themselves to furnishing a reply to the question originally addressed to them, taken in its more restrictive sense, and at the same time to give their reasons for this decision.

At the outset the Committee desire to make their own position clear beyond the possibility of misconception.

Its members were invited by a unanimous decision of the Reparation Commission to come to Paris in order that they might give technical advice, as bankers, on the conditions on which an external loan could be raised by Germany. At no time have they had the least wish to usurp wider functions. They have fully realised throughout that their technical advice, once given, would constitute but one factor in the problem which has to be solved by the Reparation Commission and by the Allied Governments alone. As soon as they met, the bankers on the Committee were unanimous in their opinion that, for various reasons, they could not, within the limits of their terms of reference understood in their more restrictive sense, offer any prospect of an external loan. Certain members, however, were of opinion that if the Commission or the Governments made a more definite statement than at present exists regarding the annual payments which they intend to exact from Germany, such a loan could be favourably considered. Had they received a unanimous invitation to state what limitations of these payments were, in their opinion, a necessary condition of external credit, these members would have been glad to do so. Such limitations would, however have been recommended only as the conditions of a loan if a loan were desired. They would have implied no view as to the amounts which the Commission could or should enforce

if the Governments were content to wait for annual payments without mobilising them beforehand by a loan. The Commission or the Governments, even if they had considered the opinion of the Committee to be a sound one, would nevertheless have been perfectly free to decide that they preferred to continue to consider from year to year the capacity of Germany and to determine the payments accordingly. In other words, any figures mentioned would have necessarily represented an opinion, not as to the probable maximum capacity of Germany, but as to the sums which the lending public of the world, forming its judgment amid all the perplexities of the present situation, would confidently believe to be well within Germany's capacity. Payments, even so cautiously estimated, would still be very considerable; the Committee recognise that the Allied Governments might nevertheless desire, even at the cost of foregoing a loan, to retain full liberty to exact the larger annual sums which Germany's developing capacity might later render possible. The Governments would not only have been at full liberty to take such a decision but, if taken, it would have been in no way inconsistent with the technical advice of the Committee. If this advice had been given, however, a decision could have been taken in the light of clearly presented alternatives.

DIFFICULTIES IN ACCEPTING A "MAJORITY" INVITATION.

In these circumstances the Committee were led to consider whether they could usefully continue their studies in response to the majority invitation of the Commission. They decided that for the time being they could not do so, for the following reasons:-

(1) France is Germany's chief creditor.

In any reparation problem her interests are the most important factor. The Members of the Committee had hoped that the chief benefit of any advice which they could have given would have been derived by France. They are all extremely anxious that no action of theirs should injure her interests. If therefore France does not now desire any enquiry into the more general conditions necessary for the reestablishment of Germany's external credit, the Committee do not feel justified in undertaking such an enquiry. They are confirmed in this view by the consideration that in existing circumstances they could not have profited by the assistance of their French colleague.

(2) As explained below, the Committee consider that a favourable atmosphere is essential to a successful floatation of a loan. The known difference of view among members of the Commission as to the limits of the Committee's mandate have for the time being created an atmosphere unfavourable to such an issue. The Bankers on the Committee cannot fail to take into account this fact, being aware that if they advise as to the conditions of a loan they incur a moral responsibility to do all in their power to make the loan successful.

For the above reasons the

Committee decided that they must suspend their work for the present.

THE POSSIBILITY OF A LOAN IN THE ABSENCE OF ANY NEW LIMITATIONS IN GERMANY'S OBLIGATIONS.

Feeling thus unable to take advantage of the majority invitation of the Commission to extend the scope of their deliberation, the Committee have considered the problem presented under the original mandate as understood in the more restricted sense.

On the assumption that the present provisions of the Treaty of Versailles and of the Schedule of Payments remain unchanged, is an external loan possible, and, if so, under what conditions ?

The Committee were confronted with the following difficulties:-

(a) It was stated that the re-establishment of the general credit of Germany is impossible so long as the lending public feel no assurance that the obligations of Germany as they are at present defined, and as they may be enforced, are within her capacity; and that her will and intention to meet them will be maintained. So long as this is the position, an investor is bound to be influenced by the possibility that a collapse of German finance resulting from the present uncertainty may produce a social upheaval. It is, however, difficult to find securities which under such conditions would be regarded as a satisfactory guarantee for a loan, or at least for any loan of such dimensions and for such a term as to give substantial relief to the situation. Even a first-class

security like the Customs, which under stable conditions would provide a sound guarantee for a considerable loan, might fail to retain a sufficient gold value if the economic position of Germany or her social conditions were seriously disorganised. Such possibilities may be remote, but the investor in a long-dated loan naturally tends to envisage the worst rather than the probable.

(b) It was stated that investors in some of the most important countries, notably in the United States and Great Britain, would find no real attraction in a loan to Germany which was not calculated to promote a permanent settlement of the Reparation problem. And it is obvious that even if a loan could be raised on the basis of assigned securities rather than on the basis of Germany's general credit, it could at best do no more than assure a short respite; thereafter, Germany would be faced with her undiminished reparation obligations with the further handicap that her best securities would have been already mortgaged for the service of the loan. In the meantime, both Germany and the rest of the world would have been suffering from the continued uncertainty which in every country is a serious obstacle to economic recovery. Thus, even if such a loan were possible, it would represent at the best the payment of a heavy price merely in order to wait for conditions which might be more favourable for a general settlement.

(c) It was also stated that investors in countries which took no part in the war were suffering severely from the depreciation of the mark, partly because they had invested heavily in marks, and partly because the commercial competition of German industry derived an artificial advantage from this continued depreciation; and it was stated that in these circumstances they also would feel no interest in a loan which offered no prospect of establishing Germany's finances on a stable foundation.

(d) Again, as regards France, it was stated that a limited loan would encounter great difficulties, since only a small proportion of it could at best return directly to France as reparation.

Realising these and other difficulties, and feeling that they ought not to recommend a loan of which they could not confidently anticipate a successful issue in their respective markets, the Members of the Committee have, with great regret, arrived at the conclusion that under present conditions, they cannot advise that an external loan is feasible.

GENERAL OBSERVATIONS AS TO FUTURE POSSIBILITIES OF LOANS.

Having regard, however, to this negative conclusion, the Committee, while feeling unable to accept the majority invitation of the Commission to examine in detail the wider problem, consider that they may usefully add the following general observations upon it.

- (a) An essential condition of an external loan at any time is that the public should feel that Germany is herself making a real and substantial effort to place her public finances upon a stable basis. It is of the greatest importance that through the technical security to be given by Germany and the rehabilitation of her financial situation, she should clearly show a desire to meet her obligations in the hope that by the fulfilment of those obligations she will re-establish her credit.
- (b) The second essential condition is that dealt with in detail above, viz. the removal of the present uncertainty regarding reparation obligations.
- (c) The Committee had before them a statement that American Bankers and investors could in these circumstances be interested in a substantial degree in the purchase of German obligations, but only if one further fundamental condition were satisfied, viz., that such a loan should be at the unanimous request and for the benefit of the Allied nations. This unanimity could be in no way better expressed than by the active co-operation of the bankers of the Allied and neutral countries in the distribution of the securities to their own nationals.
- Among the fundamental conditions of American participation, therefore, was unanimity among the lenders as well as establishment of the credit of the borrower.
- (d) Most of the members of the Committee are well aware that any advice of theirs, while it might have assisted

could not in itself have secured these conditions. They fully realise for example that if they recommended as an essential condition of a loan a limitation of Germany's annual payments, the countries concerned, in considering the effect on their financial situation, would necessarily have in mind their own external indebtedness. They realise that a solution, however desirable in itself, might in fact prove to be impracticable unless it were a preliminary to other financial adjustments. The element of uncertainty which accentuates the burden of Germany's obligations is also a serious factor in the case of the external public debts of the Allied countries. In this connection, the Committee desire to recall that in considering the conditions of the re-establishment of Germany's general credit they regard certainty as essential; mere leniency in enforcement, such as the Commission may show without modifying the total obligation, is not sufficient.

Such questions, however, as Inter-Allied indebtedness are outside their competence, and cannot therefore be discussed here. But the Committee cannot ignore the fact that in the minds of those who consider any adjustments of the Reparation obligations, they are bound to be discussed and that they are among the factors in the problem of securing that desirable Allied agreement which they consider one of the essential conditions of a loan to Germany. In this connection they have in mind the consistent principles contained in the advice of economists and financial experts since the memorandum submitted on 15th January, 1920 to the Governments of several European countries, and to that of the United States, principles which were accepted by the Brussels Financial Conference in September to October 1920 and have recently been endorsed by the Genoa Conference of 1922.

CONCLUSION.

In conclusion, if the Committee have felt obliged to be discouraging as to the prospects of a loan in the present position of Germany's credit, they desire to be no less emphatic in stating their conviction that, provided the necessary conditions for the revival of her credit can be realised, substantial loans could be successfully floated in all the main markets of the world. Purely financial conditions are now definitely favourable to the issue of such loans, more favourable than at any time since the war. The Committee wish to assure the Commission that it is their earnest desire to do everything in their power to assist in raising such loans if the conditions to which they have referred can be secured. They are deeply conscious of the immense assistance to the economic recovery of the whole world which would be afforded by the gradual conversion of the German obligation from a debt to Governments into a debt to private investors based like other public debts, not upon external sanctions but upon the general credit of the debtor country. They believe, indeed, that the resumption of normal conditions of trade between countries and the stabilisation of the exchanges are impossible without the definite settlement of the Reparation payments as of other external public debts. If at any time therefore the Commission is able to repeat by a unanimous decision the invitation which has now been extended by a majority, the Committee will be glad to meet again and resume the enquiry which has now been interrupted. They cannot conjecture whether the Allied Governments would be able to accept the necessary conditions, but, if so, they repeat that they are hopeful that substantial loans could be raised.

Finally, the Committee desire to point out that in the meantime, and even during the interval between such a renewed invitation and the conclusion of subsequent negotiations, Germany's financial position may obviously be threatened with serious danger. Protracted negotiations for a large and long-termed loan might mature too late if not preceded by immediate help. But if the problem were considered anew in the improved circumstances suggested, and with a real prospect of an ultimate settlement, the Committee feel that the obstacles which at present confront an interim loan would probably not prove to be insuperable. With real hope of a definite settlement within a reasonable period it would be much easier to arrange a shorter-term secured loan sufficient to save German credit from collapse during the period of negotiation. The Committee need scarcely add that they would be glad under these conditions to give any assistance in their power in regard to such a limited loan as well as in regard to the larger and more important problem.

(Signed) Leon DELACROIX

M. D'AMELIO

J.P.MORGAN

R.M.KINDERSLEY

E.VISSERING

C. BERGMANN

June 10th 1922.

Monsieur Sergent is unable to associate himself with the above conclusions and with some of the statements or suggestions contained in the present report.

Referring to the numerous remarks made by him in the course of the Committee's deliberations, he makes the general statement that he cannot, in order to promote a loan,

(14)

contemplate new limitations in Germany's liability which do not appear to him to be justifiable, nor any diminution whatsoever of the rights of France recognised by the Treaty. In agreement with the French Delegate on the Reparation Commission he is of opinion that it was not within the competence of the Committee of Bankers to enquire into modifications in the obligation of the German Government as defined in the Treaty of Versailles and in particular in the Schedule of Payments of May 5th, 1921.

(Signed) Cl. B. SERGENT.

June 10th, 1922.

CONFIDENTIAL

REPARATION COMMISSION.

14th June, 1922.

From: The Reparation Commission.

To: The German Government.

In its letter of the 31st May 1922, to the Chancellor, the Reparation Commission stated that several points in the Chancellor's letter of the 28th May required further elucidation, and that a further communication dealing with matters still outstanding would be addressed to the Chancellor at an early date. Accordingly, the Commission has the honour to make the following communication to the German Government.

It has already been settled that the details of the arrangements proposed for dealing with the following questions will be the subject of deliberations with the Committee of Guarantees:-

- (1) Supervision of the receipts and expenditure of the Reich.
- (2) Abusive Export of Capital.
- (3) Statistics.

The Commission will accordingly await the result of the deliberations of the Committee of Guarantees with the German Government on these points.

Apart from these questions, there remain the following matters still to be dealt with:

Forced Loan: The Commission has the honor to acknowledge the receipt of the Chancellor's letter of the 30th May.

The Commission understands that all arrangements will be made in due time for the receipts collected in this respect before January 1, 1923, to reach the minimum figure of 40 milliards.

Deficit of Public Service Budgets:

The Commission wishes to point out that the draft budget submitted to it makes no provision for supplementary receipts to cover the deficit in the public services.

It is true that in the Chancellor's letter of the 28th May, the

following passage occurs:-

"The subsidies to public services are abolished.

"In 1922 the expenditure provided to reduce the price of
"foodstuffs amounts to only 950 millions as against $1\frac{1}{2}$ to
"2 milliards in 1921. The other subsidies and grants have
"been abolished in so far as existing obligations allowed
"and in so far as it was possible to modify the administrative
"organisations. Other expenses have also been abolished.
"By these means the expenditure provided for in the 1922
"budget is 24.5 milliards less than that in the 1921 budget.

"As will be seen from the final observations in the
"enclosed table, the extraordinary budgets of the general
"administration and of the public services contemplate econ-
"omies amounting in all to at least three milliard marks."

No mention, however, is made of ways and means to cover the
extraordinary expenditure of these services, which for the
railways amount to 16,986 millions and for the postal service to
2,534 millions. The Reparation Commission awaits definite pro-
posals from the German Government in regard to this question.

Autonomy of the Reichsbank.

The Reparation Commission notes the Chancellor's assurance
that the Law of 25th May 1922 secures the complete independence of
the Reichsbank. It recognises that this Law withdraws from the
Government the right of direct intervention in the conduct of the
operations of the Bank, which it derived from the Law of 1875.

In order, however, to secure real independence of action it is
necessary not only that the Bank should be independent qua institu-
tion but that its personnel should also be independent.

The Commission assumes that the rights of the Government in
regard to the nomination of the ~~Chairman~~ Chairman and Members of the Board
of Direction are limited to a simple veto on appointments and that
entire liberty of choice will be left to the shareholders or their
representatives.

It attaches much importance to this and indeed would prefer to see the veto confined to the selection of the Chairman only.

The Commission is further of opinion that the Chairman should invariably be selected from the existing members of the Board of Direction.

The provisions of the new Law are not very clear in these respects, and the Commission would be glad to receive from the German Government an assurance that they will be applied in the manner indicated above.

Further, as regards the remuneration of the personnel of the Bank, all questions of the salaries to be given to individuals should be left to the shareholders' representatives.

While the Commission does not insist on the immediate introduction of a further law to place these points beyond doubt if the German Government will undertake that the existing law will be applied administratively in such a way that the objects which the Commission has in view are secured, it reserves the right to ask for further legislation should experience show it to be necessary.

The independence of the Reichsbank, however, even when made complete in the manner above indicated will only be of practical utility for the purpose of safeguarding German currency and credit, if it can be effectively used to secure that loans by the Reichsbank to the Government are made only in accordance with sound banking principles.

So long as the Reichsbank is permitted to issue notes against Treasury Bills an effective exercise of its autonomy in this connection can scarcely be looked for.

The Commission recognises that any limitation of the fiduciary circulation must be preceded by the covering of the public expenditure by real receipts from taxation or internal loans without recourse to the issue of Treasury Bills discounted directly or indirectly by the Reichsbank, and that it would be premature at the present moment to attempt to reestablish purely and simply the limitation of the note issue abolished by the Laws which have been voted since 1914 in amendment of the Law of 1875, without having first put the State finances

in order. But the Commission is of opinion that the German Government should forthwith take in hand the preparation of the measures which will have to be introduced at a later stage to re-establish a reasonable limitation of the right of issue of the Bank, and that it should set itself resolutely to the task of applying them progressively as soon and as quickly as circumstances permit. Failing such action, there is great danger that the sacrifices which the German people are being called upon to make to check the expansion of the floating debt will fail to realise the end in view.

(Signed) DUBOIS
John BRADBURY
Leon DELACROIX
SALVAGO RAGEI.

C.G. Subject Index 444.

COMMITTEE OF GUARANTEES.

Intelligence Service.

THE GERMAN EXCHANGES DURING THE FIRST WEEK OF AUGUST 1922.

I. THE BERLIN EXCHANGE DURING THE WEEK ENDING AUGUST 6 1922.

The disastrous depreciation of the mark continued at a constantly increasing rate; during the first week of August; the "Industrie und Handels Zeitung" attributes this fact to the maintenance, or aggravation of the "destructive reparation policy" carried on by France. The request that the monthly compensation payments be reduced from 2 million pounds to 0.5 million pounds was brutally rejected by the French Government; the latter threatened to take penal measures in case of non-payment; the mark fell in consequence to 0.11½ cents at New York, which means a parity of 870 marks to the dollar. At Berlin, this rate was only exceeded by accident; the dollar always remained under 900 marks. On Thursday and Friday afternoon, a tendency towards buying was noted; foreign currencies fell slightly (the dollar fell to 720 marks), but on Saturday the market became firm once more, which was especially noteworthy at the end of the week. No appreciable fall in the rates of foreign exchange can therefore be expected during the coming week. The "Industrie und Handels Zeitung" expressed the fear that the new burdens might fall on German economic conditions, even were the scheme of the French Government to be mitigated considerably in the course of debate. A financial reform, which would not include a revision of the Peace Treaty; a Customs control, and the fact of allowing Germany's former enemies to take shares in German Companies, would, the paper considers be susceptible of hastening the ruin of German economic life. The mere threat of such measures sent the dollar up in a few days from 600 to 900 marks, whereas it was quoted at 400 marks only a few weeks ago.

With regard to the consequences of the new fall of the mark on German economic conditions, the paper considers that the full extent of these cannot yet be appreciated. Prices continue to rise daily, thereby

Enclosure Logan letter 7/14/22

CONFIDENTIAL

PARIS Document 923.

August 18 1922.

sending up the costs of production, and the scale of wages; moreover the depreciation of the mark raises great anxiety concerning the situation of the money market. This situation gets worse week by week; the money shortage, and the shortage of credit, continue to exist. It has long been found impossible to procure the necessary credits to compensate property estimated at a given value on the open market, which is now thrown on the German market. Inflation increases: the last balance sheet of the Reichsbank showed an enormous surplus of 13.7 milliard marks; yet this increase, which represents only about 8% of the fiduciary issue, is insufficient for a period when the level of exchange rates, and the goods depending thereon are raised by 50 or even 100%. The increase in the number of banknotes in circulation always remains less than the increase in prices; if this fact is satisfactory from certain points of view, it emphasizes the money shortage to an alarming degree. This money shortage is felt most on the security market. The rise in the exchange rates during the past week had but small effect on the security rates. The paper notes that the average rates of securities are at present at the same level as they were at the beginning of the year, when the dollar was quoted at between 200 and 250 marks.

The foreign exchange rates during the past week, were as follows

	<u>29.7</u>	<u>1.8</u>	<u>3.8</u>	<u>4.8</u>
Amsterdam-Rotterdam.....	23,620.40	24,818.90	32,559.25	29,363.25
Brussels-Antwerp.....	4,719.05	4,993.75	6,491.85	5,902.60
Buenos-Aires.....	222.20	233.20	307.60	276.65
Christiania.....	10,436.90	10,786.50	14,531.80	12,933.80
Copenhagen.....	13,033.65	13,682.85	18,227.15	16,504.50
Stockholm.....	15,830.15	16,679.10	22,072.35	19,675.35
Helsingfors.....	1,258.40	1,328.30	1,802.70	1,592.00
Italy.....	2,771.50	2,921.30	3,765.25	3,455.65
London.....	2,701.60	2,856.40	3,755.30	3,375.95
New York.....	605.24	643.19	828.96	761.04
Paris.....	5,013.70	5,293.35	6,791.50	6,142.30
Switzerland.....	11,610.45	12,259.65	15,955.00	14,132.30
Spain.....	9,463.15	9,987.50	12,883.85	11,460.65
Vienna (German Austria)...	1.40 $\frac{1}{2}$	1.33	1.33	1.53
Prague.....	1,423.20	1,578.00	2,057.40	1,797.75
Budapest.....	31.46	31.56	33.70	33.45
Bulgaria.....	367.50	395.50	519.35	458.40
Japan.....	-	-	397.00	354.50
Rio de Janeiro.....	-	-	113.85	100.87

II. THE INDEX NUMBERS OF THE BERLIN EXCHANGE ON AUGUST 3, 1922.

	1 9 2 1		1 9 2 2		
	Jan.	3 Jan.	27 July	3 August	
	a 1)	a 1)	a 1)	a 1)	b 2)
1. Coal shares.....	100	281.3	332.2	366.5	331.1
2. Shares in ironworks & foundries.....	100	229.8	324.5	354.2	301.5
3. Metallurgic shares.....	100	292.2	308.8	325.3	218.9
4. Shares in mechanical construction workshops.....	100	291.3	307.6	331.2	275.5
5. Shares in railways & tramways..	100	288.9	235.5	342.3	309.9
6. Shares in shipping Companies and naval dockyards.....	100	266.9	250.5	268.1	236.6
7. Shares in electrical concerns..	100	261.1	241.9	265.1	224.1
8. Shares in factories manufacturing chemicals.....	100	263.9	269.5	288.6	206.7
9. Textile shares.....	100	347.6	373.9	384.7	240.6
10. Brewery shares.....	100	324.3	296.6	299.4	180.6
11. Banking shares.....	100	167.6	194.7	221.3	209.9
Total.....	100	274.7	301.2	322.5	251.6

(1) The figures given in column a) include all rights which expired since January 1, 1921.

(2) The figures in column b) are estimated without these rights.

The "Berliner Tageblatt" (No 347 of 6.8.22) remarks that the security rates, following the movement in currencies, rose during the past week. The total index number increased by 21.3 points, namely 7%. the dollar rose by 59.4% during the same period.

The following changes occurred in the special classes of shares:

	%
Banks.....	+ 13.7
Coal.....	+ 10.3
Electricity...	+ 9.1
Iron.....	+ 9.1
Metallurgy...	+ 5.3
Machinery.....	+ 7.7
Railways.....	+ 5.1
Shipping.....	+ 7
Chemicals.....	+ 7.1
Textiles.....	+ 2.8
Breweries.....	+ 1

In all, 135 classes of shares rose, 21 fell and 7 remained stationary.

III. THE INDEX NUMBERS OF GERMAN STOCK.

	1921.	1	9	2	2
	1.1	311.	27.7.	3.8.	
1. Commonwealth & Federal State loans.....	100	110.83	132.01	133.18	
2. Municipal loans.....	100	90.70	99.20	98.92	
3. Provincial loans.....	100	100.72	93.51	92.-	
4. Mortgage cedulae of German mortgage banks.....	100	103.75	99.59	99.24	
5. Prussian mortgage cedulae...	100	100.88	94.59	91.70	
6. Industrial bonds.....	100	107.10	99.46	101.76	
Total..	100	104.21	103.94	104.12	

The index-number of stock changed very little by reason of the general reserve shown on the Exchange. The total index number rose by 0.18 points, namely 0.17%; as compared with the previous week, the following changes occurred in the various categories:

Industrial bonds	+ 3.2%
Commonwealth & Federated State loans.....	+ 0.9
Mortgage cedulae of German mortgage banks.....	- 0.4
Provincial loans.....	- 1.5
Municipal loans.....	- 0.7
Prussian mortgage cedulae.....	- 3.1

In all, 14 securities rose, 45 fell and 7 remained stationary.

IV. THE INDEX NUMBERS OF THE FRANKFURT EXCHANGE ON AUGUST 4 1922.

	1920	1 9 2 1	1 9 2 2			
	Beginning of Jan.	Beginning of Jan.	10 Nov.	3 Jan.	28 July	
					4 Aug.	
Shares (1).....	7,919	14,909	40,250	33,442	40,586	44,792
Home loans.....	839	849	976	902	1,017	1,046
Foreign loans.....	632	934	2,243	1,816	7,875	10,765
Total..	9,390	16,772	43,469	36,160	49,478	56,603

1) including the expired coupons.

If 100 be taken as a basis on January 1 1921, the following figures are obtained:

Shares.....	52	100	268	223	271	299
Home loans.....	99	100	115	106	120	123
Foreign loans.....	99	100	240	214	843	1.152
Total	56	100	259	216	295	338

The Frankfurt Exchange continued to harden during the past week; the "Frankfurter Zeitung" (No 578 of 7.8.22) notes however that the upward movement of shares was slower than that of currencies in consequence of the shortage of money and credit. Only foreign loans were directly influenced by the movement of currencies. The 5 standard foreign loans gained 2,890 points in all. Home loans gained 29 points; the Commonwealth 3% Loan in particular improved by 35 points. The 25 standard classes of shares showed a surplus of 4,305 points; the "Harpener" gained 340 points, the Deutsche-Ubersee 760, the Ver. Glanzstoff 425 and the Baltimore Chic. an exchange value, 980 points.

(See Paris Document 902).

During the early part of the Commission's recent visit to Berlin the German Government stated its intention to present to the Commission a concrete project for the stabilization of the mark. This intention was not carried out, and the Commission might, under ordinary circumstances, be justified in insisting that the initiative belonged to the German Government, and that the German Government should carry out its expressed intention. But the gravity of the present crisis, and the need for prompt action, have led the Commission to consider immediately the remarks of the German Government itself, and also the suggestions contained in the majority and minority reports of the economic and financial experts whom the German Government summoned from several different countries to advise it regarding the situation.

There is no need for argument as to the necessity of stabilizing the mark. The German Government, its Experts, and the Commission are in agreement on this point. All parties also agree that the mark can be stabilized.

Further, the Commission agrees with the German Government and its Experts that the primary essential for stabilization of the mark is confidence -- confidence within Germany, confidence outside Germany. If this confidence be once established, comparatively little money will be needed to stabilize the mark. If this confidence be not established, then stabilization cannot be effected.

The Reparation Commission is prepared to do its full share towards establishing confidence. Only by so doing can it properly fulfill its obligation as trustee for those countries interested in reparations, but it is glad to feel that this policy will contribute towards ends even more important than reparations.

This declaration means that the Reparation Commission, within the limits of its powers, is prepared to take whatever decisions may, in its judgment, be necessary to restore confidence, and is also prepared, within the limits of propriety, to advise further action by the appropriate Governments, if such action seems to it necessary for the purpose in view. To make its thought still more clear, the Commission states flatly its recognition of the fact that demands, which are not properly adjusted to the capacity of a debtor, defeat their purpose by destroying credit and hope. Proper adjustment of demands upon a debtor involves the preservation of that debtor's incentive - self-interest - without which human effort, particularly the united effort of a nation, is impossible.

In forming its judgment as to what is necessary, the Commission will at all times be ready to consider the views of the German Government, or of independent experts selected by the German Government.

The foregoing declaration is subject to one condition, viz: that the German nation pledges itself to do its part towards restoration of confidence. For the Commission is firmly of the opinion that the most that the Allies can do is to remove obstructions. Germany's redemption will then depend on Germany herself. Unless her national will is manifest in such a crisis as the present, the difficulties in the way of her redemption are insuperable.

This pledge should take the form of some convincing expression of Germany's national will. While it goes without saying that actual performance will prove the most convincing expression of such a national will, the Commission believes that such an expression will go far on the one hand to create confidence

in the future performance and, on the other hand, to make possible such performance by future German administrations.

In saying this the Commission does not ignore the fact that the present German Government has already expressed its willingness to fulfill certain of the conditions necessary to the restoration of confidence, viz: to complete the financial reforms incidental to the stabilization of the mark by enforcing all possible administrative economy, by imposing necessary taxation; and to pay reparations within the limits of its capacity. But without doubting the intention of the present German Government, the Commission must be pardoned for emphasizing the importance of a more definite expression of the German national will, not only upon these points, but upon the question of Germany's national will for peace.

The Commission emphasizes the necessity of an expression of the national will because governments come and go. It wants to know that behind every German government which may come there will be this national pledge. It would even express the hope that Germany may be able, now or later, to devise some special constitutional machinery for executing its reparation obligations, which would give final and conclusive assurance that the minor decisions and the necessary administrative details will be as prompt and as nearly automatic as is humanly possible. The control of German finances by an outside body is naturally repugnant to Germany. It is not a task which any outsider covets. Any machinery which would place control of German action affecting reparations in the hands of a body, which would be practically permanent and which could act quickly and with the necessary authority, would, if backed by the national will, obviate any necessity for outside financial control.

At first the suggestion of an expression of Germany's national will for peace may seem both alien to the financial problem before us, and humiliating to Germany herself. But the Commission presents this suggestion solely from the sordid practical point of view. It has no intention of raising the question whether Germany was responsible for the war, or of demanding any admission of such responsibility by Germany. It recognizes the psychological fact that every nation feels as a whole that it, at least, is a peaceful nation which cannot be forced into war except in defence of the right.

But in analyzing the factors which affect the present situation of Germany, and particularly the factors which affect financial confidence both within and outside of Germany, we are confronted by the undoubted fact that the Allied and Associated Nations are profoundly distrustful of Germany's will for peace. The question of the past has no bearing on this undoubted fact except to furnish its explanation.

This distrust weakens the whole financial structure of Europe. It affects profoundly the credit, not only of Germany, but of every state in Europe. It is responsible for expenditures which States would otherwise gladly eliminate from overburdened budgets. It affects the economic relations of European States with Germany and with each other. It prevents concessions to Germany which might otherwise be generously accorded, perhaps with ultimate advantage to the according States.

It is not the view of the Commission that an expression of Germany's will to peace will reverse wholly a deep-seated psychological impression, but nothing else except time and experience can go further in the desired direction. Laying aside all other considerations, nothing else can go so far towards laying the

foundation for the international cooperation which is the necessary condition precedent for the stabilization of the mark.

By the will for peace we mean real acceptance of the Treaty of Peace, subject only to such changes as may be brought about by peaceful means, i.e. by the persuasive results of argument and experience. This, of course, means that Germany is to accept the judgment of the Allies, who may, in any given case, be interested parties. But this is merely the inevitable result of the arbitrage of war.

The Commission recognizes that this will for peace means real renunciation by Germany. In order that no possible doubt of our meaning may remain, we mention as one illustration the partition of Upper Silesia. It seems to be true that nothing in the Peace Treaty seems to the German Nation more arbitrary and unjust than this partition. It is for the German Nation to choose whether it will renounce definitively and finally the possibility of obtaining the return of Upper Silesia by force, or whether it will nurse the hope that some turn of fortune may put Germany in position to compel its return. In other words, is this latest arbitrage of war final, or is the world to be kept permanently in unstable equilibrium by Germany's hope that it may some time in the future submit the issue again to the test of war? If Germany, four years after the war, is unable to make this renunciation, it is inconceivable that the Allies can contribute the renunciations necessary on their part to rehabilitate Germany's financial and economic position. If Germany is unable to make this renunciation, the existing distrust of Germany's will for peace is amply justified.

(Any such letter as the above should be followed by a provisional decision of the Commission - aimed at protecting the situation until the Brussels Conference and until Germany has in some form expressed its national will. During these interim periods discussions should continue for the purpose of preparing the real plan for the stabilization of the mark, and for the final decision of the Commission.)

RWB
11/15/22

The Vissering-Dubois plan for the stabilization of the reichsmark may be criticised from the following points of view:

I.

If the syndicate formed by foreign bankers with the Reichsbank should try to raise the Reichsmark considerably above its present level and possibly above its present internal purchasing power, then it might happen that the result of the transactions of the syndicate would be only transitory, i.e. after a short rise the mark would fall back again and the money spent by the foreign syndicate together with the amount of gold staked by the Reichsbank would be lost in the transaction. To provide against such possibilities the syndicate on the other hand might ask for such securities to be given by the German Government that all important assets of the German Government would be pledged in favor of the syndicate and practically nothing would be left for the Reparation. The answer to such criticism is the following:

The foreign syndicate furnishes 500 million goldmarks, the Reichsbank furnishes the same amount so that the aggregate amount at the disposal of the stabilisation syndicate should be one milliard goldmarks. At the present ratio of 1500 to 2000 papermark to one goldmark, one milliard goldmarks in theory would be enough to buy 1500 to 2000 milliards of papermarks, a sum which by far surpasses any existing amount of papermarks. It is not proposed that the syndicate should begin its operations by selling foreign exchange on the German markets. On the contrary the efforts of the syndicate would be concentrated on foreign markets as New York, London, Amsterdam, Zurich where the syndicate should proceed to buy up simultaneously all the floating material of papermarks. It is

hardly

hardly possible that the amounts of papermarks available in foreign markets will aggregate anything like 100 milliards. Therefore if the mark should not rise in consequence of the syndicate operations, about 50 million goldmarks would be sufficient to buy up the total amount of papermarks available in foreign markets. Of these 50 million goldmarks 25 million would come from the foreign syndicate and 25 million from the Reichsbank. That would be the highest amount which the syndicate might possibly risk in the transaction.

But in practice things will develop quite differently. The combined efforts of the syndicate to buy up marks in all important foreign markets would at once bring about a considerable rise of the mark and a correspondent fall of foreign exchange in the German markets. It must be taken for granted that important amounts of foreign exchange are being held by Germans on account of pessimism or speculation. If the rise of the mark continues only for a few days, many German owners of foreign exchange will sell part of their holdings at least and certainly enough to repay at once any advances made by the foreign syndicate and the Reichsbank to the German Government. Practically therefore there is no risk in the proposed transaction since the amount at the disposal of the syndicate is so enormous as to do away with any opposition from those who would be inclined to fight the improvement of the price of the mark. The success of the syndicate would be a permanent one as the one billion of goldmarks at the command of the syndicate would in no time be used to any considerable extent and consequently would always dominate the exchange situation.

The

The above result, of course, is conditioned by the grant of a full moratorium to the German Government at least as regards all payments in cash for a number of years. But in that even the psychological effect of the moratorium combined with the formation of the syndicate will be so great as to bring about by itself a turn in the sentiment and in the speculation of German holders of foreign exchange it can safely be assumed that at the announcement of the formation of the stabilisation syndicate the price of the mark will improve considerably even without any transactions of the syndicate.

It cannot be the intention of the syndicate to force up the price of the mark above its internal purchasing power. The mark should go up easily, the syndicate only to prevent undue fluctuations. Whenever the mark becomes heavy, the syndicate should try to hold it where it has the tendency to rest.

The best security which the stabilisation syndicate should ask for is to be found in the 25% which the German Government raises in foreign exchange from the German exports. In regular times the 25% represent about 80 million gold marks per month, i.e., one billion gold marks a year. As Germany should be free for several years from current cash payments, the Reparation Commission might willingly consent to set aside a part of the 25% levy on exports as ample security for the syndicate. If out of abundant caution the syndicate would claim priority for its advances to the German Government over all reparation cash payments, such claim therefore would have no practical importance.

II.

If the stabilisation of the mark be as easy a problem as explained above, why should not the Reichsbank alone undertake it without the assistance of a foreign syndicate?

The answer is this. The Reichsbank does not command in Germany the necessary credit to assure the full success of the operation. Various endeavors made so far by the Reichsbank have failed.

It would be risky to entrust the Reichsbank alone with the new effort to be made even conditioned by a moratorium. Besides the transactions of the Reichsbank itself would have their natural centre in German markets i.e., they would principally consist in selling foreign exchange which would be the wrong way for the operation. The Reichsbank needs the co-operation of foreign capital in two respects:

- a) for a better handling of the transactions in the foreign markets,
- b) in order to convince the German public that the stabilisation is sure of success and that opposition is useless.

Besides the Reichsbank alone could not furnish the total of one milliard of gold marks which is proposed in order to eliminate any risk that might otherwise be involved.

November 17th, 1922.

Enclosure Logan letter of Nov 28, 1922

CONFIDENTIAL

GERMANY is in her present untenable position for chiefly two reasons:

- (1) She does not produce enough, partly because the amount of work performed in general is insufficient, partly because all the means of national production are not fully utilized, owing to governmental control of production and distribution and also to foolish tax legislation.
- (2) The Versailles Treaty, through its economically unfulfillable terms and through its grave psychological blunders, has ruined Germany financially and morally, and makes it impossible, moreover, to do away with the reasons mentioned under (1)

How can Germany and, with her, Europe and the world get back to healthy conditions?

The presupposition for the removal of the causes named in (1) is the assurance that Germany will become a free country once more. (A removal of the causes named in (1) is possible only if there is the assurance that Germany will become a free country once more.)

Therefore the following question will have to be laid before the German people:

Provided the Entente pledges itself to evacuate Germany (including the Saar District) completely, say by the first of April, 1923, to abandon any kind of sanctions, retorsions, liquidations, commissions and compulsory deliveries, and not to interfere henceforth in any way with the internal administration of Germany - will Germany declare its willingness, possibly by means of a plebiscite, to take upon itself the following obligations, without the fulfillment of which a return to healthy conditions is impossible:

- (1) They will work overtime without increased pay rate for overtime work, i.e. merely as an addition to the 8 hour day, and will do so long enough and to such an extent as to
 - (a) make the German balance of trade active again and keep it so,
 - (b) insure the payment of interest on and the amortization of a gold loan with which to effect the reconstruction of France and Belgium and to undertake the stabilizing of Germany currency. (Details are to be worked out by experts. It is assumed here that at least 2 hours of overtime work for a period of from 10 to 15 years will be required.)
- (2) Government control in all branches of domestic and foreign business intercourse will be abolished, especially the demobilization regulations and all subsidies, in whatever form they may appear, such as regulation of rents, compulsory tenancy (Zwangsmiete), assessed grain deliveries, fixing of price limits, prohibition or restriction of imports and exports, reduction of railroad rates below the cost price, particularly in the passenger service, compulsory assessments, compulsory syndicates, taxes on foreigners and on the letting of temporary lodgings.

On the other hand, Germany, working once more with normal wages

and under conditions, will everywhere in the world be granted the most favored nation clause and will have access to all the raw materials and colonial territories without regard to the rubing flag and on the same conditions as the rest of the world.

(Details to be formulated by experts)

(3) The German Mark is to be stabilized at once at the point at which it will find itself after the stabilization and reparations loan (as per 1, b) has been insured, and when the following additional conditions for the permanency of such stabilization have been created:

(a) for a period of at least five years, any strike in any industrial undertaking that is of vital importance to national economy shall be forbidden and considered a punishable offense.

(Experts will determine what industrial undertakings come under this provision and what the punishments shall be.)

(b) the administrations of public (government) enterprises must at once be reorganized and put on an economically sound basis (if necessary by combination with similar enterprises in other countries, but with proper measures to maintain the national character), so that they may yield profit to German national economy instead of causing losses, and may at the same time become fit to serve as a foundation for the international gold loan.

(Detailed measures will be suggested by experts)

(c) The German tax laws must be so changed as to stimulate the thrift (saving inclinations) of the population, promote the formation of capital, and restore the respect for private property, while crimes against property are subjected to extreme severe punishment.

(Detailed suggestions to be made by experts).

(d) The forces of all ministries and government departments must be reduced to a minimum, and all the laws enacted since the beginning of the war should be re-examined with a view to ascertaining whether their effect has not been one to hinder production in some way or other.

(Detailed suggestions to be made by experts)

4. Those persons of the middle classes and those pensioners who, through the inflation, have been robbed of their subsistence should be cared for by the state through the means of temporary minimum annuities, so that they may support themselves decently and not, in their despair, become a danger to Germany and the world.

(Detailed suggestions by experts)

5. After all this preliminary work has been done, Germany and France, in conjunction with England, Italy and Belgium, will have to approach the U.S. of America in order to try to arrange the indebtedness between the nations and thus make possible a final liquidation of the consequences of the war of 1914-18.

797

ANSWERED

MAR 9 1920

5, RUE SCRIBE
J. E. C.
TEL: CENT. 79-75

Paris, Feb. 14, 1920.

FILING DEPT.

MAR 10 1920 PT.

FEDERAL RESERVE BANK

Hon. Benjamin Strong,
Governor, Federal Reserve Bank,
15 Nassau St., N. Y.

Dear Ben:-

At a meeting of the Reparation Commission which I attended this week it was finally decided to use the foreign exchange rates recorded by the Federal Reserve Bank of New York as of 12 o'clock noon each day, for the purpose of making conversion in connection with certain reparation matters. It will, therefore, be necessary for you to add to the rates which are already being established those of Germany and such of the other Allied currencies as you are not recording at the moment, where it is possible to obtain rates. It is my feeling that it might be of value for you to also register the rates in Austria and the other countries of Central Europe, as well as the neutral countries. Occasion might arise where it would be very valuable to have some standard rate in connection with these countries.

In New York transactions in some of the exchanges do not take place with sufficient regularity to enable the recording of a daily rate. It would seem to me, therefore, that in order to place yourself in position to make records of such rates that it would be well for you to have the Bank of England cable you daily the arbitrage rates which exist in London in time to reach you on the morning of each day. With such arbitrage rates you could figure the rates of any countries not covered through the established Sterling rate. The rates which you should have from the Bank of England ought to be nominal rates, that is, rates between the buying and selling rate. By arranging a code with the Bank of England which would merely require that the rates cabled you should always be in the same order, and should always mean the same thing, a cablegram could be brought down to a minimum cost. You could in this way cover practically all of the countries in Europe where the exchange rates could possibly be of use. It would also make a very clean record for the Federal Reserve Bank that might be extremely valuable.

If it should so happen that you would prefer to have me write to Mr. Norman and make the arrangement with him, I shall be pleased to do so. It is just possible that he might not know exactly where to go to get the rates, although I should not think that this would be the case.

If there is anything further that you wish me to do in the matter, just let me know, and I will look after it.

B. S. 2.

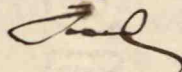
It will be necessary for the Federal Reserve Bank to arrange a code with the Reparation Commission, and at the same time make special arrangements with the Cable Company under which the cables will be given right away over everything else. Again, the code will only need to contain figures covering the rates, as their order can be understood. This is a most satisfactory way to handle matters of this kind, and I have carried it on for many years.

The rates should be cabled 5 or 10 minutes after 12 every day, that is, the first possible moment when they can be set up in code. Mail confirmations should also come forward to the Reparation Commission. Mr. Rathbone will advise you direct as to whom to address the cable, and I am suggesting to him that the Reparation Commission register a cable address for the purpose.

It is my firm conviction that the whole matter handled in this manner will work out extremely well for all concerned, and save an endless amount of friction that would otherwise be certain to occur.

We are now figuring on the question of how bills shall be turned in by the various countries on May 1, 1921, as no one believes that it is going to be possible to turn them in before. When this matter is settled, I will let you know what is done.

Sincerely,



FIK/MKS

5, RUE SCRIBE

TÉL: CENT. 79-75

Paris, January 7, 1920.

Mr. Benjamin Strong,
Governor, Federal Reserve Bank,
15 Nassau Street,
New York City.

Dear Ben:-

Referring to your letter of December 1st from which I quote to bring the matter to your mind as follows:-

"Let me illustrate by such a case as this: Suppose marks are quoted in New York at two cents, or, roughly, one-twelfth of gold par and Francs are quoted at ten cents, or, roughly, one-half of gold par. In order to credit Germany against the delivery of some specific article, one would assume that the cost of that article in Germany would be, roughly, six times what it would be in France -- and I do not believe that that is the case or can be regarded as a fair measure! "

In the case referred to by you it is going to be necessary for the Reparation Commission to establish a price. In order to do so, it is often going to be a more or less complicated operation, but if they know positively that after a price is established that its conversion will be automatically based on certain known conditions, they can ascertain such price with much greater certainty and fairness to all concerned. The formula suggested in other words is not aimed to fix a method for the establishing of prices, but to fix a method for the conversion of currencies. It must be borne in mind that the fixing of prices by the Reparation Commission will probably not work out as a continuous performance so to speak, and after May 1, 1921 nothing of the sort will have to be done whereas the conversion of the exchanges will have to be continued for many years.

Of course after May 1, 1921 if Germany desires to deliver goods in part payment of indemnities it could do so provided Germany and the Reparation Commission agree as to the price but there would seem very little possibility of the matter developing in this manner as the Germans will undoubtedly prefer to sell their goods and make payment by the exchange received therefrom. By doing so it will help build up their foreign trade and establish good will, whereas deliveries to the Reparation Commission would carry no advantages whatever of this character. If therefore some fixed and positive

B. S. 2.

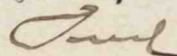
method of converting the exchanges is adopted, no friction need ever develop.

It should also be borne in mind that the paper mark after May 1, 1921 will probably not be brought into the calculations at all except possibly in connection with coal deliveries. This being true, the price of coal, if it continues to prove necessary to fix it in paper marks, can be so based as to make the conversion on the system adopted of the paper marks into gold marks one that will bring a proper result.

The more I see of the developing situation here, the more firmly am I convinced that the system suggested is the only one that will work without friction as when once adopted it will be automatic in ninety nine transactions out of a hundred which will prevent the necessity of wrangling between representatives of Nations which it is to be regretted is a popular sport at the moment in this part of the world and will continue to be as long as there is elasticity to Reparation adjustments.

Will not bother you more at the moment with this matter as I know you are busy, but felt it advisable to give you this further point. You of course can realize how I have certain advantages as to the obtaining of information which Government Officials do not, in that Bankers and industrial men talk freely with me whereas they do not always do so with Government representatives, and I also hear the Government side.

Sincerely yours,



FIK/MC.

PERSONAL AND CONFIDENTIAL

797

December 8, 1919.

DEC 8 1919

My dear Dr. Vissering:

Your kind letter of the 14th ultimo has just reached me, and I feel somewhat guilty that I have not been able to write you earlier. You will surely understand this when I say that since reaching home on the 28th of September, I have made no less than seven trips to Washington, one of them being nearly a two weeks' stay, and have had very little time for my personal correspondence. Besides that, I have not been quite well and have curtailed my work as much as possible. My trip abroad was most tiring, as well as depressing, which was not helpful to one who does not enjoy very good health.

Mr. Kent has written me of the meetings at Amsterdam, and I have also had some talks with Mr. Warburg and am expecting to see him again. I have also read the secret report and have considered it very fully.

Of course our situation here has been much confused by the unfortunate developments in regard to the ratification of the treaty. Just how that will develop at this session of Congress is difficult to forecast. I still have hope that, with certain reservations, the treaty will be ratified and that this country will not be left in the apparent position of withholding moral and material support and assistance to Europe. In the meantime, the proposal of the Amsterdam conference, I think, necessitates my submitting a few frank comments:

So long as the United States has not ratified the treaty, it is probably unwise that our people, either those in official positions or private citizens, should join in a proposal to submit a plan or recommendations to the Council of the League of Nations. My own feeling has been that any plan of this, or other, character should first be submitted to our Government. On the other hand, a proposal to a

~~PERSONAL AND CONFIDENTIAL~~

conference such as was held in Amsterdam that the adherence of an American representation to a plan would be dependent upon action by our Government, might be most embarrassing to all parties. I, personally, regret that it took such form as was expressed in a letter written you, I believe, by Mr. Kent, because I feel that at the present time our Government, technically, can not indorse such a report and that it would be equally unfortunate to have it decline to indorse a report, particularly one which might, in general, meet its approval, although I have no knowledge whether this particular one would meet with its approval or not.

After a great deal of thought, as the result of my trip abroad, I came to the conclusion that the simplest and wisest procedure by the Government and people of this country would be along the following lines:

- (a) Enlarge the powers and resources of the Grain Corporation so as to enable it to deal with all matters of human and animal food stuffs.
- (b) Enlarge the powers and resources of the War Finance Corporation so as to enable it to deal with all matters of raw materials.
- (c) Leave all financing of capital requirements for industries, etc., for handling by our bankers and investors.
- (e) Invite the neutral governments to supplement our own plans by joining with us along somewhat similar lines if possible.

It appears, upon investigation, that in some respects other people will not approve of the above suggestion, at any rate for the present, and that it is not possible to undertake even that plan so long as the treaty is not ratified. This is all most disappointing to me, personally, but, nevertheless, efforts which are now being made, I hope, will result in some plan for the immediate needed relief this winter to those part of Europe which may suffer for want of food stuffs, and possibly before this letter reaches you I may be able to write you again, and more definitely, as to proposals along this line.

I hope that you will understand that I am writing you quite personally and quite confidentially, for your own information, and am simply expressing my own

PERSONAL AND CONFIDENTIAL
personal views.

Our discussions of these matters, when I had the pleasure of visiting you, did much to clear my own mind and gave me added assurance to urge that steps be taken for relief measures this winter, feeling that we could count upon similar steps being taken in Holland and other neutral countries.

Permit me also to thank you most cordially for the good service you rendered to us in handling the gold received from Germany, concerning which I am writing you separately.

Do write me from time to time, and I shall certainly keep you informed as fully as I can of developments over here.

With kindest regards, I am,

Very sincerely yours,

Dr. G. Vissering,
c/o De Nederlandsche Bank,
Amsterdam, Holland.

ES.MSB

797

December 1, 1919.

Dear Fred:

x
x
✓
x

 I have your various letters dated October 21, 22, November 7 and 10, all of which I have read with great care and interest. I am greatly pressed for time just now and will defer writing you fully in regard to the proposed system of accounting in the reparation organization. The Embassy bills will be promptly paid. In regard to the meeting at Amsterdam, however, I feel some real concern lest we be developing a situation already difficult, either for yourself personally or for the Government. It would appear if you or any American signed the report that certain of our citizens were endeavoring to influence or bring pressure upon the Government through the instrumentality of the organization of the League of Nations. Representations of that character should first be presented to our own Government by private citizens. Furthermore, the report contains some references to the method of treatment of foreign debtors which are wholly out of line with what we know to be the present official attitude of our Government and some sort of embarrassment is certain to result from anyone occupying so near an official position as yourself signing such a report. But, what impressed me as unfortunate and I think I should write you this frankly, was your letter of November 10 to Dr. Vissering, the effect of which has put everybody on notice, that you are proposing to put the matter up to the Government for a decision. It might be that our Government might not like to be asked to make such a decision at the time. In fact, I think it would have been wiser to ask for an opinion from the Government privately before indicating to others that we were asking for such an opinion. I am writing this very

frankly because I know that you want my opinion and that you are accustomed to getting it frankly when you want it.

In one of your letters you said that you understood that I was in sympathy with the idea of a bankers conference. The only conference which I discussed was a proposal that the Governors of the central banks should meet at some time to discuss matters of mutual interest. Such a meeting was urged upon me by Mr. Gunther, Charge' de Affaires, at the Hague, who it seems sent a dispatch to Washington recommending that such a conference be arranged. Confidentially, his dispatch was referred to me by the Mission in Paris and I urged there as I had already with Dr. Vissering, that no such conference was desirable under present conditions because it would be interpreted as an effort on the part of the central banks to deal with the foreign exchange problem which is too vast a problem even for the central banks to undertake to solve and it might in fact give rise to distrust and uneasiness. Such a conference would be of great benefit to the whole world just as soon as governments are spending no more than their income. Until that time arrives continued expansion of credit and inflation of currency is likely to occur and under such conditions I do not want to see the Federal Reserve banks involved in a discussion, the only result of which can be to place burdens upon them which they should not now assume.

Sincerely yours,

Fred I. Kent, Esq.,
c/o Bankers Trust Company,
5 Rue Scribe,
Paris, France.

BS:MMcC

797

*C440
N. S. G. S. C.
conf.

PRIVATE AND CONFIDENTIAL:

December 1, 1919.

KC 790 3.4
Since Agony upon
re-appears again

Dear Fred:

✓

I am sending you two letters today, neither of which, I fear, will prove very satisfactory to you.

I am exceedingly anxious that you do not push ahead too fast in connection with Dr. Vissering's plans, or those other bankers'. I have great respect for Dr. Vissering and for his intentions and purposes, but, personally, I regard all of these plans for creating something out of nothing as fundamentally unsound in many particulars and highly dangerous from an inflationary standpoint. The report which you sent me contains some admirable recitals, but, when it comes down to the proposed treatment of the situation, it is exceedingly indefinite in certain important particulars and rather takes for granted a willingness to organize the financial forces of the world to look after Germany's situation at the moment, without regard to the interests of the nations with which we were associated in the war.

Nothing that has developed since my return changes my own view that the instrument to be employed in this country for furnishing food credits is the Grain Corporation, and the one for furnishing raw material credits is the War Finance Corporation. I would like to see a plan worked out by which the interested neutral nations would cooperate in a large way, and even that should not be difficult with a little ingenuity. I hope you keep in close touch with Rathbone on all of these matters, as he, of course, will be fully informed of everything that is going on here.

With many thanks for your very interesting letters, I am,

Sincerely yours,

Fred I. Kent, Esq.,
5 Rue Scribe,
Paris, France.

D. MSB

DR. G. VISSERING
AMSTERDAM.

Amsterdam , November 14th , 1919

PERSONAL AND CONFIDENTIAL

BA
DEC. - 8 1919

Benjamin Strong Esq.

Governor of the Federal Reserve Bank of New-York
NEW YORK .

My dear Mr. Strong .

I just received your confidential letter of 6th October last only after a long delay , and thank you very much for your courtesy to spent a moment already on the first day that you were returned at your office to write to me . I hope that your health will be again quite satisfactory . It is really not a pleasure and not without much inconvenience to make such long travels in this bad season .

In the meantime we have had an opportunity to several further conferences , and I expect that Mr. Warburg will have informed you that we had a very interesting meeting on the 13th and 14th of October in my house , where Mr. Kent , Mr. Raphael Géorges Lévy from Paris , and Mr. J. M. Keynes from London were also present . We took the resolution to call a second meeting only of individuals , therefore quite unofficial , on the 2nd of November , and we invited also Mr. Wallenberg from Stockholm , Mr. Volckmar from Christiania , Mr. Glückstadt from Copenhagen , and Mr. de Haller from Bern to attend to this meeting . We have been so happy , too , that all these gentlemen were ready to come to Amsterdam , and Mr. de Haller was still accompanied by one of his colleagues , Mr. G. Pictet from Geneva . Mr. Warburg was this time no more present , as he had just crossed the ocean , but we expect that he will fully agree also with the resoluti

1201133 21 11 33

Lévy was prevented to attend , as his wife was rather seriously ill , but we hope to gain still his collaboration also for the resolutions of this last meeting , which has been convocated by letters also signed already by himself in Amsterdam on the 14th of October . Mr. Warburg will be able to give all further information of what has been discussed , and of the final opinion of the gentlemen present at this conference . Of course , we kept the conference and the resolutions absolutely secret until we should think that the right moment should have come to publish our views .

In the meantime , we got some further information from Mr. Kent , writing us from Paris , that it should not yet be the right moment to bring our suggestions before the adequate bodies , being in the first place eventually the Council of the League of Nations in London and the Commission des Réparations in Paris . So we are obliged still to keep entirely secret the results of the second conference .

On the other hand we got from Mr. Keynes very satisfactory communications about the persons he has consulted in England about the steps to be taken by our combination of individuals . I hope , that when you receive this letter , all these questions , that are hampering now our combination to take further steps , will be solved , as circumstances are already more pressing that something should be done to restore the very serious situation nearly deteriorating every day .

I will be very grateful to you if you will be so kind to remain in touch with me ; from my side I hope also to inform you of the most important features in this matter .

797

FILING DEPT.

5, RUE SCRIBE
TEL: CENT. 79-75

DEC 10 1919 Paris, Nov. 12, 1919.

FEDERAL RESERVE BANK

Mr. Benjamin Strong,
Governor, Federal Reserve Bank,
15 Nassau St., N. Y.

Dear Ben:-

✓
Your letter of Oct. 15 just received to-day, Nov. 12. Am very glad indeed to know your opinion of the strike situation in America, although I had felt that there was every reason to believe that government might be able to control the situation. The principal difficulty is that they have allowed the poison to go too far to make possible control without considerable friction. However, it is a world disaster, and unfortunately government is permeated with it, as well as labor.

One phase of the situation here which is giving me a good deal of concern at the moment is the lack of coal. It is so bad that many industrial concerns have been obliged to shut down, and as many of those which have already closed manufacture for export, it is having bad results, which are already showing in the exchange. Some coal has just come over from Germany, which is going to help a little, but the German miners have knocked off work to such an extent that the German production is not sufficient to meet the situation. Germany itself is apparently very short of coal, but this, I believe, is due more largely to lack of transportation facilities than lack of the actual article. If the Westphalian mines were worked to their pre-war capacity, the whole situation would rapidly improve. Passenger traffic in Germany and Austria has been suspended for a fortnight in order to facilitate the movement of freight. It is felt that this will result in a much better distribution of goods, and save some percentage of the suffering that is inevitable this winter in view of the unwillingness of labor to work properly.

Presume you have talked with Mr. Warburg about the situation in Germany. Have been able to confirm a great deal of what he said, but there are also conditions there which were not apparent to him. By this I mean that there is still so much double dealing on the part of the Germans that it is impossible to trust them in a way that is necessary in order to enable a pulling together toward better conditions. This is undoubtedly not due to the acts of any of those with whom Mr. Warburg was associated in Germany during his stay, as they were the higher type and had a different point of view. The unfortunate fact remains, however, that there is sufficient German intrigue going on all the time to prevent any satisfactory progress. While the other nations, of course, have many representatives who are also engaged in intrigue,

B. S. 2.

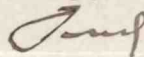
and which as well acts to hold back improvement, yet the carrying on of some of the Germans is such that it makes it impossible to place confidence in those who wish to act in good faith.

Regarding General Harbord, would say that immediately upon his return to Paris, I wrote him that certain facts and figures which were being obtained for me in Constantinople had not yet come forward, but were expected any day, and asked him in view of the fact that he had, according to the newspapers, turned in his report, whether he still wished me to furnish him with the statement that I was working upon. He has not replied to my letter, so I take it that he does not care for the report, and as I am more than overwhelmed, I shall not prepare it unless he asks for it, because it would be foolish to do so unless it were going to be of some service.

Will look forward with pleasure to your further letter on conditions in America, which you promise when you have a favorable opportunity.

With sincere regards, I am,

Cordially,



FIK/MKS

797

5, RUE SCRIBE

TÉL: CENT. 79-75

Paris, Nov. 10, 1919.

Mr. Benjamin Strong,
Governor, Federal Reserve Bank,
15 Nassau St., N. Y.

Dear Ben:-

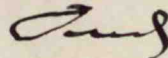
My former letter to you was sent immediately upon my return to Paris, and before I had gone over the matter with Rathbone, as we had arranged before I went to Amsterdam. Rathbone is absolutely opposed to putting in any matter about reducing loans, which I fully anticipated. It was because of such anticipation that I arranged in Amsterdam before I left to have everything held in abeyance until I telegraphed Dr. Vissering that the matter could be released. The position of our Treasury Department in connection with the whole matter is such that I felt it advisable to proceed in such manner that it would not be embarrassing in any particular.

Will write you and Mr. Warburg fully as soon as Mr. Rathbone has determined what position he may wish me to take. At the moment he is considering it, and when he does give an answer, it will of course be unofficial and absolutely confidential. The calling of a meeting of financial representatives is in line with your own opinions as I recall them.

Will not stop to write more now, as I wish to send this by Mr. Jay, who is sailing Wednesday.

With sincere regards, I am,

Cordially,



FIK/MKS

P. S. Enclose herewith copy of letter which I have just mailed Dr. Vissering. Telephoned the contents to Mr. Rathbone, who is in entire accord with it.



Paris, Nov. 10, 1919.

Dr. G. Vissering,
President, Nederlandsche Bank
Amsterdam, Holland.

My dear Dr. Vissering:-

Since my return to Paris, I have actively taken up the question of the presentation of the Memorandum drawn up in Amsterdam with certain important representatives of our Government. The question of presenting a Memorandum to the League of Nations, coming up as it did so suddenly in Amsterdam, did not allow an opportunity to ascertain whether the idea was practicable in view of the political situation in America due to the discussion going on at the moment in the United States Senate in relation to the Treaty of Peace. I find now, however, that there is a possibility that the presentation of the Memorandum to the League of Nations might result in the development of complications which would absolutely defeat the purpose of our Conference. This being true, it is necessary for me to withdraw my subscription to the Memorandum until the matter can be placed in order.

To clarify the situation, a cablegram is being sent to-day which will result in putting the matter before our President, for the purpose of obtaining his opinion and if possible his tacit approval. Due to the fact that the United States would be called upon to furnish the main portion of any fund that might be built up by the Nations concerned, it is necessary that we have the approval of our Administration before anything can be done. Such being the case, it is far better to obtain such approval, if possible, before any active steps are undertaken to bring the Nations together in the manner desired rather than afterward. In case our Administration does not approve, nothing will be accomplished by presenting the Memorandum to the League of Nations, and much friction might develop, whereas with its approval, we can move forward with confidence in an endeavor to bring all of the Nations concerned in line.

Regardless of whether it proves advisable to present the Memorandum to the League of Nations, the Conference which we held will have accomplished something of vast importance because we will unquestionably find out whether the Government of the United States is willing to be approached at the moment with the idea of making advances to Europe.

Dr. G. Viessing - 2.

Should we find that it is not possible to bring the American Government into the matter in the manner suggested by the Conference, any further consideration of Government taking part at present could be abandoned and it would not be necessary to waste any more time on this phase of the problem. With the knowledge thus gained, it would merely become a Bankers' proposition which when clearly realized could be studied from that point of view without being complicated by the element of possible governmental action. It would then be in order for the Members of the Conference to renew their study of the situation along other lines and as soon as correspondents had passed between us that seemed to allow for the development of some practical method of procedure, a meeting could be called in Paris and we could move forward quickly toward the accomplishment of something that will be effective in meeting the necessities of the case.

It will be in order for you to send a copy of this letter to every Member of the Conference. As soon as I am in receipt of replies to cablegrams now going forward, I will advise you fully of the result, also for the information of the Members of the Conference.

Very truly yours,

FKK/MS.

797

5, RUE SCRIBE
TEL: CENT. 79-75

Paris, Nov. 7, 1919.

Mr. Benjamin Strong,
Governor, Federal Reserve Bank,
15 Nassau St., N. Y.

Dear Ben:-

Enclose herewith copy of matter which was prepared at the meeting called by Dr. Vissering in Amsterdam. Doubt whether it will entirely please you, as I am not satisfied with it myself. However, it seemed to be the best thing that could be obtained in view of all the circumstances, and the importance of getting the neutral nations of Europe linked up to the situation seemed great enough to make it worth while to let it pass as it is.

Germany owes the neutral nations of Europe some 4,000,000,000 Marks, of which originally 3,000,000,000 Kronen were owed to Sweden. A part of the Swedish debt has been repaid, but just how much I do not know. The neutral nations are, therefore, extremely interested in having Germany able to work out from under her present situation. They also recognize fully what it may mean to them if Bolshevism should develop in Germany or central Europe, and they are ready to put their shoulders to the wheel to try to help prevent such an outcome.

The meetings, which lasted throughout Sunday and Monday, Nov. 2 and 3, were attended by Dr. Vissering and Mr. ter Meulen, of Amsterdam, together with one or two others from the Nederlandsche Bank, and representatives from Norway, Sweden, Denmark and Switzerland, in addition to "Yours truly". Mr. Levy, Vice-President of the Credit Mobilier, who represented France at the first meeting, was unable to come on account of the illness of his wife. I expect to go over the matter with him, and if he approves the paper, it will then carry a representative of France, as well as of the other countries.

Mr. Keynes stated that in Great Britain they were extremely anxious to have the matter submitted to the League of Nations, and he took such positive ground for this method of procedure, which seemed to meet with general approval, that it was allowed to develop in this manner. Of course if signatures are obtained to the memorandum by representative people in all of the countries concerned, and presentation is made to the League of Nations, which may be called together inside of the next four weeks, it will either receive notice, in which case a note may be presented to the governments concerned, or it may be ignored. In the latter event it will leave the Committee called by Dr. Vissering high and dry with no plan.

As you know, I have of course been working more toward

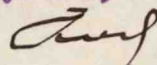
B. S. 2.

getting banking groups interested, even though I realize that it would be valuable to have governments co-operate if they could do so in the right way. I have always been in considerable doubt, however, as to whether governments could be induced to work together as quickly as the situation demands, if the best results are to be obtained. As all of the other members of the Committee, however, had their minds fixed upon making application to governments first, and as I felt that it might be the best way to ascertain whether they could be brought together, it seemed advisable to let the matter proceed. On the other hand, it seemed a pity to have an organization of individuals from so many countries disband without accomplishing anything, provided the League of Nations ignores the memorandum, and on that account it was left that Dr. Vissering should be the center to which we should all present any plans for combined action that might come to our notice or be developed by us, with the understanding that they would be copied and circulated to each member of the Committee. It was then arranged that in case anything developed which seemed to have mutual support that a meeting be called in Paris for the purpose of bringing it into life. There are some glaring inconsistencies in the paper as finally accepted, but as after I called attention to them they all felt it better to let the document stand as written, and in view of the difficulty of satisfying so many men with imperfect understanding of English, but who all had their own opinions, I felt it better to drop the criticism. In any event, the paper will serve to bring before the League of Nations positively a first and important proposition, that is certainly worthy of their consideration, if anything is going to be.

As I wrote you, Mr. Warburg attended the first meeting. Have written him of the result of the second meeting, and wish you two could talk the matter over, as he could tell you a good deal more about the first meeting than I can well write.

Hoping that in general this matter may meet with your approval, but asking that you write me fully all of your views in connection with the proposition, in order that I may have the benefit of your point of view at the meeting in Paris, if it is held, and with sincere regards, I am,

Cordially yours,



FIK/MKS
Enc.

The undersigned individuals beg leave to lay before the Council of the League of Nations a proposal that the Governments of the countries chiefly concerned, which should include the United States, the United Kingdom and the British Dominions, France, Belgium, Italy, Japan, Germany, Austria, the Neutral countries of Europe and the chief exporting countries of South-America, should be invited by the Council forthwith (the matter being of the greatest urgency) to convene a meeting of Financial representatives, for the purpose of examining the situation, briefly set forth below, and to recommend, in the event of their deciding that co-operative assistance is necessary and advisable, to whom and by whom assistance should be given and on what general conditions.

They venture to add to the above recommendation the following observations :

The war has left to conqueror and conquered alike the problem of finding means effectively to arrest and counteract the continuous growth in the volume of outstanding money and of Government obligations, and, its concomitant, the constant increase of prices. A decrease of excessive consumption and an increase of production and taxation are recognized as the most hopeful, -if not the only-, remedies. Unless they are promptly applied, the depreciation of money, it is to be feared, will continue, wiping out the savings of the past and leading to a gradual but persistent spreading of bankruptcy and anarchy in Europe.

There can be no social or economic future for any country , which adopts a permanent policy of meeting its current expenditure by a continuous inflation of its circulation and by increasing its interest-bearing debts without a corresponding increase of its tangible assets . In practice every country will have to be treated after careful study and with due regard to its individual conditions and requirements . No country , however , is deserving of credit , nor can it be considered a solvent debtor , whose obligations we may treat as items of actual value in formulating our plans for the future , that will not or cannot bring its current expenditure within the compass of its receipts from taxation and other regular income . This principle must be clearly brought home to the peoples of all countries ; for it will be impossible otherwise to arouse them from a dream of false hopes and illusions to the recognition of hard facts .

It is evident that Germany will have to bear a heavier load than her conquerors , and that , in conformity with the Treaty of Peace , she must bear the largest possible burden she may safely assume . But care will have to be taken that this burden does not exceed the measure of the highest practicable taxation and that it does not destroy the power of production , which forms the very source of effective taxation . For the sake of her creditors and for the sake of the world , whose future social and economic development is involved , Germany must not be rendered bankrupt . If , for instance , upon close examination , the Commission des Réparations finds that , even with the most drastic plan of taxation of property , income , trade and consumption , the sums that Germany will be able to contribute immediately towards the current expenses of her creditors will not reach the obligations now stipulated , then the Commission might be expected to take the view that the scope of the annual contribution must be brought within the limits within which solvency can be preserved , even though it might be necessary for that purpose to extend the period of instalments .

The load of the burden and the period during which it is to be borne , must not , however , exceed certain bounds ; it ^{not} must bring about so drastic a lowering of the standard of living that a willingness to pay a just debt is converted into a spirit of despair and revolt .

It is , ^{also true} ~~however~~ , the case that amongst the victorious countries ~~also~~ there are some whose economic condition is exceedingly grave , and who will have to reach the limits of their taxing-powers . It appears therefore to the undersigned , that the position of these countries , too , should be examined from the same point of view of keeping taxation within the power of endurance , and within a scope that will not be conducive to financial chaos and social unrest .

The destruction of property and of the savings of the past has ~~therefor~~ gone too far to leave some of the countries strong enough to make good the loss , unless a part of the burden is carried by the others .

For example , might it not be worthy ^{of} ~~for~~ consideration whether the creditors of countries , who were their Allies or Associates in the war , should not view the situation from the broad standpoint of lightening the burdens of the latter ? In other words , should not the United States and England consider how far they can ease the burden of their Entente debtors either by abandoning interest-charges or by cancelling a portion of the claims they hold in obligations of Entente-countries . In view of the fact that a portion of these loans reacted to the benefit of the loaning countries , in waging what was a common cause , a scaling down of such loans in proper proportion might be justifiable and could be written off as a legitimate war expense by the lending-countries .

the world's balance of indebtedness has been upset and has become topheavy and unsteady.

~~Is it~~ not necessary to free the world's balancesheet from some of the fictitious items which now inflate it and lead to fear or despair on the part of some, and to recklessness on the part of others? Would not a deflation of the world's balancesheet be the first step towards a cure?

When once the expenditure of the various European countries has been brought within their taxable capacity, (which should be a first condition of granting them further assistance), and when the burdens of indebtedness, as between the different nations, have been brought within the limits of endurance, the problem arises as to how these countries are to be furnished with the working capital necessary for them to purchase the imports required for re-starting the circle of exchange, to restore their productivity, and to reorganize their currencies.

The signatories submit that, while much can be done through normal banking channels, the working capital needed is too large in amount and is required too quickly for such channels to be adequate. They are of opinion therefore that a more comprehensive ~~scheme~~ scheme is necessary. It is not a question of affording aid only to a single country, or even a single group of countries which were allied in the war. The interests of the whole of Europe and indeed of the whole world are at stake.

They believe that, if the League of Nations were to recommend cooperative action, there is no nation amongst either neutral or belligerent countries, which would stand aside from taking its proper part. No act could do more to promote the world spirit for which the League stands than a great international act of cooperative assistance designed to heal the unprecedented economic evils from which all Europe is now suffering.

It is not our intention to suggest in detail the method by which such international co-operation in the grant of credit may be secured. But we allow ourselves the following observations :

- 1.- The greater part of the funds must necessarily be supplied by those countries, where the trade balance and the exchanges are favourable.
- 2.- Long term foreign credit, such as is here contemplated, is only desirable in so far as it is absolutely necessary to restore productive processes. It is not a substitute for those efforts and sacrifices on the part of each country, by which alone they can solve their internal problem. It is only by the real economic conditions pressing severely, as they must, on the individual that equilibrium can be restored.
- 3.- For this reason, and also because of the great demands on capital for their own internal purposes in the lending countries themselves, the credit supplied should be reduced to the minimum absolutely necessary.
- 4.- Assistance should as far as possible be given in a form which leaves national and international trade free from the restrictive control of Governments.
- 5.- Any scheme should encourage to the greatest extent possible the supply of credit and the development of trade through normal channels.
- 6.- In so far as it proves possible to issue loans to the public in the lending countries, these loans must be on such terms as will attract the real savings of the individual; otherwise inflation would be increased.
- 7.- The borrowing countries would have to provide the best obtainable security. For this purpose it should be agreed that :

(a) such loans should rank in front of all other indebtedness whatsoever whether internal debt , reparation payments or interallied governmental debt .

(b) Special security should be set aside by the borrowing countries as a guarantee for the payment of interest and amortization , the character of such security varying perhaps from country to country , but including in the case of Germany and the new States the assignment of import and export duties payable on a gold basis , and in the case of States entitled to receipts from Germany , a first charge ^{outlook} in such receipts .

The outlook at present is dark . No greater task is before us now , than to devise means by which some measure of hopefulness will recenter the minds of the masses . The reestablishment of a willingness to work and to save , of incentives to the highest individual effort and of opportunities for every one to enjoy a reasonable share of the fruit of his exertions must be the aim towards which the best minds in all countries should cooperate . Only if we recognize that the time has now come when all countries must help one another , can we hope to bring about an atmosphere , in which we can look forward to the restoration of normal conditions and to the end of our present evils .

In conclusion the signatories desire to reiterate their conviction as to the very grave urgency of these questions in point of time . Every month which passes will aggravate the problem and render its eventual solution increasingly difficult. All the information at their disposal convinces them that very critical days for Europe are now imminent and that no time must be lost if catastrophes are to be averted .

MG

Green

Paris,

Dated October 28th, 1919.

Recd. 29th, 9 a.m.

Secretary of State,

Washington, D. C.

Urgent. 4869. October 28th, 10 p.m.

R-18, to Secretary of Treasury for Davis
from Rathbone.

First. The exchange questions affecting accounting are difficult of solution. It is evident that damages for which reparation is to be claimed must in first instance be computed in currencies of respective countries which have suffered same. For accounting purposes there should be one currency used, to which all others can sooner or later be reduced. The gold mark is obviously the proper currency to so use, particularly as bonds provided for in Annex Two are to be payable in gold marks. It seems quite evident that in figuring Germany's maximum debt it is proper to convert the items of damages expressed in the respective currencies of the various Allied and Associated Governments into gold marks at gold parity, provided Germany, in making payments in gold

or its equivalent, is given the benefit of the depreciation in the currencies of the various governments at the time of payment, so that Germany will be credited on account of future payments with the depreciation at the time of payments of each allied exchange upon New York exchange market as fixed by Federal Reserve Bank. The foregoing is equivalent to, but simpler in its operation than providing that Germany should be only required to pay installment in gold or its equivalent up to the requisite proportion of the respective currencies of the various Allied and Associated Governments which such payment would produce, on account of the depreciation of those respective currencies as shown by the rates fixed by Federal Reserve Bank. You will observe that as maximum German liability is determined by conversion of allied currencies into gold marks at gold parity though the currency of a country may, theoretically, go to a premium in New York, the maximum German obligation to pay will not thereby be increased. In view of the fact that conditions of trade will more nearly approach normal as time goes on and considering also the effect of present treasury support *British, French, and Italian exchanges will disappear - it is believed that no fairer

fairer plan can be devised. Should abnormal conditions, not now foreseen, arise in future then it is to be expected that Reparation Commission would alter its formula if necessary to fairly and equitably deal with situation.

Second. This leaves to be determined (dealt with?) the two important cases: (A) payments by Germany in materials or services where method of payment is not fixed by treaty; and (B) conversion of paper marks into gold marks.

Third. As to (A) paragraph second above, It seems equitable that commission should value materials and services furnished by Germans in part payment of reparations in currency of country receiving such materials and services. Do not see how any hard and fast rule can be adopted as to how such valuations shall be made. Ordinarily an examination should be made by commission of value of similar materials and services in country receiving same. If in any particular instance commission did not believe this would furnish basis for proper valuation it could have reference to world values of similar services and commodities. As I understand it the value of the materials and services received by a country from Germany on account of reparations valued in the

the currency of the country receiving same would be deducted from the gross claim of that country expressed in its own currency and the same amount would be converted into gold marks at gold parity and be credited to Germany as a payment on account of obligations.

Fourth. As to (B) second above, appropriate that at the moment conversion of marks into other currency measured by exchanges may not furnish fair plan. However, as trade returns to normal and artificial conditions brought about by blockade and War disappear believe that price of materials on New York exchange market will furnish most equal basis for conversion of paper marks into gold marks or into currencies of various other countries. In meantime it might be possible to make conversion of paper marks into gold marks on basis of table of commodity prices in United States and Germany as index with reference to prewar prices of such commodities. See no reason why such table should deal with prices elsewhere than in United States and Germany. It will be necessary fix value of paper mark only with reference to gold, as all conversions between gold mark and currencies of various allied countries will be on basis of mint (parity?) of exchange, and as already explained Germany on all payments, whether in gold, materials, services or paper marks, will be given

given benefit of depreciation of the allied currencies as measured either by New York exchange or by decreased purchasing power of currency in which values of materials or services are fixed.

Fifth. It is recognized that where payments are made by Germany on account of reparations while Treasury's support of pound, franc and lire exchange still exercises influences on New York exchange market, the system proposed is not beyond criticism. Nevertheless as payments during such periods will be relatively small, the comparative simplicity of the plan proposed compared with any other plans considered recommends its adoption. Believe it is impossible to devise any fairer plan or one beyond criticism. The plan proposed which contemplates the agreement in advance on many important principles will, it is believed tend to avoid friction and differences of opinion between this and countries in the future.

Sixth. If you approve, intend to submit to commission on organization Reparations Commission, exchange section, American position and accord with foregoing, substantially as follows: (A) As the custom sustained by France, Great Britain, Belgium and other countries must necessarily be final, in the first instance, in their own currencies, it seems sound that these currencies be converted into gold marks at par of exchange in fixing maximum custom, and

and that Germany should be given the benefit of depreciation in exchange of these countries, measured by New York's market in most cases: i.e., the payments made by Germany in gold marks to be figured at the exact amount of the respective amounts of francs, pounds, etc., the gold payments would produce over the New York exchange market.

(B) To the extent that the payments are made by Germany in materials or by services (unless otherwise determined by the treaty) the value thereof should be determined by Reparations Commission as of the time of the delivery of such commodities or the rendering of such services, in the currency of the country obtaining such payment in materials or services. While ordinarily these values would be fixed by the commission on the basis of values of similar commodities or services in the country receiving the same yet, if the commission were of opinion that unusual conditions existing at the time did not give a fair indication of the valuation of such materials or services so determined, the commission in their discretion, might fix such values with reference to the world values thereof. The values of the materials and services so furnished by Germany, fixed as above, would be converted into gold marks at gold parity, and the corresponding amount of the claims of the respective countries receiving such materials

materials and services would be credited with a corresponding payment in gold and the amount of total maximum claim against Germany as fixed in gold marks would be diminished by the aggregate amount. As the claims of the Allied and Associated Governments in their respective currencies are to be converted into gold marks at mint parity, similarly the amounts paid by Germany in a materials and services when valued in a currency of an Allied or Associated Government should also be converted into gold marks at mint parity in order to determine payment made on account of Germany's maximum obligations stated in gold marks.

C. Recognizing the abnormal conditions produced by the blockade and other war measures upon German exchange may prevent at the moment the purchasing power of the paper mark being fairly measured by its value on the New York exchange market and recognized also that as trade conditions return to their normal state the ^{ver}concession of paper marks into gold marks may fairly be made on the basis of exchange rates between the United States and Germany it must be left to the commission to derive ^{and} when to commence the operation of such rule of conversion and in the meantime to base the conversion of paper marks into gold marks on the basis of a sympathy with commodity prices in the United States and Germany as an index with reference to relative changes from pre-war prices of such commodities.

Seven. Cable at once whether you approve our taking position indicated.

Eight. You will observe the soundness of our position as to method of conversion of German paper marks depends on whether proper table can be prepared as contemplated by subdivision C, paragraph six above. There are no experts here to prepare such table or to demonstrate that same could fairly be used as a basis of conversion of paper marks into gold the table papers in Washington. Believe that Gay's organization had compiled data needed in making up such table. Will you have such table prepared and cable me earliest possible time. Without awaiting completion of table I should be advised what commodities are to be used and fully the methods of converting paper marks into gold by the use of the table and the reason why such methods will give an equitable result.

Nine. Kent and Sterret have been this but lately and agree with it. Kent suggests that last clause of sub-division A, paragraph six above would be more clear if stated in foreign exchange terms as follows:

"Payments made by Germany in gold marks to be credited Germany succeeded to the percentage of deprecation in money of each country concerned as

as measured by the rate for its exchange as quoted in the New York exchange market."

Kent also informs me that large amounts of paper marks are being now sent in Holland and United States resulting from special buying in those countries and from Dutch purchases of marks; resulting guilders have been used to purchase dollars and sterling. These transactions show that the mark is beginning to be dealt with more freely again in the world's market. Rathbone.

LWR

AMERICAN MISSION.

797

5, RUE SCRIBE
TEL: CENT. 79-75

Paris, Oct. 27, 1919.

Mr. Benjamin Strong,
Governor, Federal Reserve Bank,
15 Nassau St., N. Y.

BA
DEC - 1 1919

Dear Ben:-

While I do not suppose it possible that you could consider from my letter to you, and the plan enclosed, that I believe that the exchange rates represent an exact parity of prices, yet as we are so far apart, thought I had better not take any chances of a misunderstanding, as it might make a difference in your opinion of my point of view.

It seems to me that any bill which is rendered must be on as firm a basis as possible, and that gold of "present weight and fineness" is the only satisfactory measure possible to this operation. While due to local conditions commodities in different countries carry different price indices as reflected in depreciated currencies, yet due to the peculiar situation of the United States as a producing nation in connection with the requirements of the European countries concerned, I believe that the foreign exchanges will come nearer to giving a correct and fair solution of the problem than any other plan that can be devised. Their use in the manner outlined by me will also eliminate friction between the representatives of the various countries, that would be certain to occur should any uncertain methods of procedure be adopted. If price indices were taken into consideration, there would still be the necessity of using the foreign exchanges for the purpose of making a proper comparison, and I believe any such system would lead to endless bickering that might develop more bad feeling between the countries than anything else which could occur in connection with the work of the Reparation Commission. Germany is not going to be able to pay any more or any less because of the establishment of any complicated or other system, and I feel certain that if she is placed in position to obtain credit for depreciation of the currencies of the Allies as shown in their foreign exchange rates, it will be entirely fair to her, and she will receive all she deserves.

The Reparation Commission has it within its power to analyze the bills for damages upon their presentation, and to consider prices of commodities and labor in the make-up of the bill. They can do this with far more certainty of exercising proper judgment if a fixed system of accounting and conversion of the foreign exchanges is to be followed afterward than would otherwise be possible.

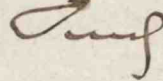
B. S. 2.

Mr. and Mrs. Rathbone and their daughter took dinner with us the other night, and we had a very interesting evening.

The meetings of the Commission have now started, and those of the Organization Committee, to which I was a delegate, are finished, for which I am very grateful, as it took so much of my time that I have been simply overwhelmed.

Hoping this will find you well, and with sincere regards,
I am,

Cordially,

A handwritten signature in cursive script, appearing to be 'L. J. King'.

FIK/MKS

799

5, RUE SCRIBE

TEL: CENT. 79-75

Paris, Oct. 21, 1919.

BA
DEC -1 1919

Mr. Benjamin Strong,
Governor, Federal Reserve Bank,
15 Nassau St., N. Y.

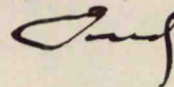
Dear Ben:-

Dr. Vissering requested me to attend a meeting in Amsterdam, which he called for the purpose of considering the whole European situation. Mr. Keynes was there from Great Britain, and a representative from France. Mr. Warburg was at the meeting, and a number of others. It was decided to hold another meeting on November 2, which will be attended by representatives from Norway, Sweden and Denmark.

Dr. Vissering asked me to write you in detail about the matter, which I gladly promised to do. Will, however, await the next meeting before doing so, as I can then give you a much clearer idea of the situation.

In the meantime this will let you know what is going on. Wish you might have been there.

Sincerely yours,



FIK/MKS

797

5, RUE SCRIBE
TEL: CENT. 79-75

Paris, Oct. 21, 1919.

Mr. Benjamin Strong,
Governor, Federal Reserve Bank,
15 Nassau St., N. Y.

BA
DEC -1 1919

Dear Ben:-

Since I wrote you last I have been simply overwhelmed, as I have been serving as delegate on the Organization Committee of the Reparation Commission, and have also made another trip to Belgium and Holland. It is only on that account that I have not written you.

In connection with the work for the Reparation Commission for some reason or other cables have been sent that the delegate had made certain recommendations which had been agreed to after consulting me. As a matter of fact I have been the delegate, and have attended all the meetings, but I suppose my address being Wall Street made it seem advisable to camouflage me more or less. However, that is neither here nor there, but I thought it had better be mentioned to you confidentially, so that you would better understand the situation.

During the meetings I made two reports, one depending upon the other, copies of which I enclose herewith. They were both cabled to the United States, except the table, which they did not feel could be very well sent in this manner. Without the table I can readily see that the whole plan might not be understood, as it was drawn up for presentation to the Commission with the table as a part of the document, so that without it it is incomplete.

Mr. Sterrett just called upon me, and showed me a copy of a cablegram which Mr. Rathbone received from Mr. Davis, in which he stated that he had consulted with you and Mr. Leffingwell, and that you all felt that the system outlined was not satisfactory and might not be fair in its operation. While the points raised by Mr. Davis in his cablegram were clear, yet it was also evident that you did not any of you understand the system, which was not at all strange, as you did not have the table.

Further, the fact that the United States Government advanced funds to the Allies which helped protect their exchange during the war has no bearing upon the situation at present, as all the exchanges are free from effective government interference. * This being true, exchange rates are of necessity written into prices of commodities. For instance, if a French importer buys wheat in America at \$2.00 a bushel, and he is obliged to pay 8 Francs for every dollar of exchange, he must sell his wheat in France for 16 Francs a bushel, plus his expenses, before he comes

* (see last page)

B. S. 2.

out even. With the censorship on cablegrams and letters removed, and the service becoming more and more normal, arbitrage of exchange and prices is getting more and more free. On this account dollar exchange as between France and the United States is finding its way into prices of articles that may be imported from Great Britain. Again, the United States must supply certain principal foods and raw materials to Europe for a considerable period, and the cost of living is largely based upon such articles, for luxuries are purchased from desire and not necessity. Establishing some positive system of figuring the exchanges does not prevent the Reparation Commission from considering price bases in any manner that they may desire for the purpose of ascertaining the ability of Germany to make payment as time goes on.

From what I can gather in my study of this situation, which has been greatly extended since I saw you through many new fields and a going over of old ones, one of the greatest necessities of the moment is certain knowledge on the part of Germany as to what her maximum payment must be. If it is stated in a certain number of gold Marks of present weight and fineness, with a fixed maximum that is fair to all, it will be far better than if stated in any uncertain manner based on possible fluctuating prices of commodities. Such credits as Germany may receive from the Allies under the system that I have outlined will simply serve to reduce her payments as they are made, but will always keep before her a clean total amount that she will have to meet, except for any possible future credits.

When it comes to the question of the depreciation of the currency over gold, the foreign exchanges are one of the clearest measures. This is shown fairly well in the question of pension payments. The French representatives at the meetings stated that they were authorized to include pension payments in their bill for damages. They stated that on that account they must receive the exact number of gold Francs that was necessary to cover their pensions, and that their pension payments should, therefore, be carried into the bill on a gold basis without any deduction for exchange.

I explained to them that if the plan I outlined were used, and Franc exchange as measured by the United States dollar was 50% discount, and Germany paid in gold Marks on a basis of 50% discount, so that France would receive 50 Francs for each 100 Francs presented in her bill, that the gold so received could be shipped to the United States and dollars sold for the proceeds, which would give the French Government exactly 100 Francs, less cost of shipment, so that even in this case, which they felt was the most difficult of all to consider from an exchange basis, it was entirely fair to France, as well as to Germany, to allow the exchange rate to rule. As long as it is possible to ship gold Francs to the United States and sell the proceeds in dollars on a mint par basis in Franc exchange, which is paid for in paper Francs, the dollar rate of exchange measures the depre-

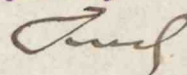
B. S. 3.

ciation of the French paper Franc, and the same is true in Germany. Paper Marks are now being shipped to the United States in large amounts, and the dollars received are available for purchase of goods in the United States, for shipments of gold, purchases of securities or other forms of investment. If the price of goods in Germany as expressed in paper Marks should reach a point where it is profitable to ship paper Marks to the United States and sell them for dollars, which could be used to buy the same kind of goods in the United States for import to Germany, the operation would be continued as long as it was profitable. As the United States is a producer of such an immense number of different commodities, and articles, which go into the daily life of man, the value of the American dollar is a very real measure of the depreciation of the paper currency of the European nations, under present conditions.

Any operations which the United States Government may have made in the past to temporarily help the exchange of the Allies now hang over that exchange so that such operations cannot be considered in the light of favoring the Allies over Germany in connection with reparation payments.

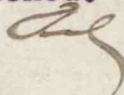
Will not write more at the moment, as I want to get this to you as quickly as possible.

Sincerely yours,



FIK/MKS

- * Understand there are still some funds available to France that were advanced by our government, but by May 1, 1921, when the bills for damages have to be presented, such funds will have long been expended. Now that the blockade of Germany has been raised, Mark prices in Germany are rapidly climbing to arbitrage levels, and there is evidence that long before May 1, 1921 parities will have been reached.



October 10, 1919.

Charge to Treasury Department.

NOT BY WIRELESS.

AMMISSION
PARIS

For Rathbone from Davis. Treasury R-4.

Refer Mission's number 4469 October first to Secretary of State relative to accounting under Reparations Commission.

While it is probably necessary for the reasons stated to carry the accounts in gold marks, I question the equity and soundness of determining such sums under the system proposed. Although I realize the difficulties in developing another workable basis and have no specific plan to offer now in substitution, it seems to me for the following reasons that some other basis of determining values must be worked out.

FIRST: It is a mistake to assume that the depreciation of the mark paper currency or its mark gold value can be ascertained correctly through the dollar rate of exchange. It is also wrong to assume that the rate of exchange between dollars and marks and francs registers the relative depreciation in those two currencies. That might be possible if the rates had been determined by natural commercial transactions - free of artificial restrictions. Such is not the case. Franc, sterling, and lire exchanges have been supported to a great extent by the Treasury while Germany has been excluded from the world's commerce for five years and has had no means of supporting her exchanges. When such

artificial factors enter into the determination of exchange rates such rates have no real economic significance. When peseta exchange was selling at 28 cents it would have been equally fallacious to have assumed that the dollar had depreciated 50 per cent.

SECOND: It is doubtful whether the German paper mark has less relative purchasing power in Germany than the franc has in France. It is therefore more important to devise some plan for arriving at the value of commodities and services and the relative purchasing power of the respective domestic currencies than try to fix their depreciation or gold value in relation to New York exchange. This may be done by using commodity prices as an index with the relative increases from pre-war prices.

THIRD: I do not understand where there will be any interchange of commodities with which the Reparations Commission will be concerned, where conversions of Allied domestic currencies into gold marks will have to be made. There are also few if any cases where German domestic currency will have to be converted into so-called gold marks. The coal, etc., to be delivered by Germany under annex five of the Reparation Chapter apparently may be paid for in German paper marks. In respect to materials, etc., to be delivered under annex four, to ships under annex three, and to the other items specified in Articles 236, 237 and 243 for which Germany is to be credited on reparation, the Reparations Commission shall determine the values and respective credits and may very well fix this in gold marks without any specific conversion process, by reference to the world value of such properties and materials.

FOURTH: I do not quite understand the proposed plan that each Allied country should compile a statement of its damage on the basis of

its gold currency and that the total should then be converted into gold marks at the mint par of exchange. The amount of damage assessed against Germany should, in my opinion, be calculated in the domestic currency of the respective countries, because most of the reparation of such damage (which will represent labor and local materials) will be paid for in such domestic currency and not in gold. It may be expedient for accounting purposes to convert these sums into gold marks. The damage however can not be restored or paid for for many years, and by the time this is done there may be a considerable difference in the so-called gold value of the currencies which have been theoretically previously converted into gold marks. If, however, it is proposed that the calculation of damage shall first be made in the present paper currency of the country concerned, and then reduced to the gold currency of such respective country by determining the percentage of its depreciation in relation to New York exchange, and the sum thus found converted into German gold marks at par of exchange, it would probably be fair and just to all concerned, provided the rate of exchange on New York would show the correct relative depreciation in such respective currencies which is most doubtful.

FIFTH: Germany will owe so much more than she can pay that it will be a very unjust, shortsighted policy for the Allies to attempt to purchase German commodities deliverable under annexes four and five and six of the Reparation Chapter at less than their real value by taking advantage of her abnormally low rate of exchange and taking the domestic price in paper marks as a basis for conversion through dollar exchange into so-called gold prices. Naturally the mark has a greater purchasing power in Germany than abroad, likewise the franc. The determination of pre-war prices for German commodities such as dyestuffs figured in marks

can only be properly made by ascertaining the relative purchasing value of such pre-war marks.

SIXTH: I have discussed matter with Strong and Leffingwell who agree substantially with my views and also briefly with Sterrett who sailed yesterday. Sterrett should be of considerable assistance in working out a plan. In the meantime suggest you discuss question with Kent with a view of his working out plan more on lines above indicated. Hope you can defer action until Sterrett arrives and then determine on whatever plan you think best after discussion with him and Kent.

(Signed) R. C. Leffingwell.
Assistant Secretary of the Treasury.

NHD:HB:MD

71-10

797

WA

PLAIN

Paris

Dated Oct. 1, 1919.

Recd. Oct. 2, 4 AM.

Secretary of State,

Washington, D. C.

4469. October 1, 10 PM.

American representative, who is being assisted by Mr. Fred F. Kent, on subcommission of Interim Reparations Commission considering the methods of accounting of the Reparations Commission, has tentatively presented following memorandum to committee as showing American position:

"Heading: Money of Account.

The accounting of the Reparations Commission should be carried on in gold marks for two principal reasons. First. In order to be able to follow the terms of the peace treaty with such certainty that no misconception can ever be placed upon any operation of the books of account, the kind of money nominated in the treaty, namely 'gold', should be used. Second. For greater convenience, because the Reparation Commission, after determining prices in each of the Allied countries of commodities exchanged and the amount of damage to be assessed Germany in the currencies of each Allied country on a gold basis, will have only one conversion to make, and that direct into gold marks.

Subheading: Methods. With the accounting established in gold marks, it is desirable that a system of conversion of foreign currency into gold marks be decided upon that is simple and positive in its operation, and that is beyond possible criticism. The best means to this end is to operate under the following system:

The gold values of the currencies of all of the Allies should be used, all conversions being made at the gold rates of exchange (mint par) from the currencies concerned into German gold marks. Under this system it will devolve upon the Reparation Commission to establish the prices of commodities (which it must do under the terms of the treaty) in the gold currencies of each country. This will necessitate the conversion of prices as ascertained in the paper currencies of the Allies into the gold of the same moneys before such moneys are converted into gold marks. The percentage of depreciation of such currencies should be ascertained through the dollar exchange, for reasons which follow.

Prices which are ascertained in mark paper currency should be converted into mark gold by obtaining through the United States currency the percentage of depreciation of the mark paper currency.

Each Allied country, when compiling a statement of damages, should do so on the basis of its gold currency, and the total would then merely have to be converted into German gold at the mint par of exchange.

Subheading: Reason for using United States dollar as basis for Conversion: Due to the fact that none of the Allied countries, except the United States, is on a free gold basis, and their currencies are consequently depreciated and at varying percentages from day to day, it is going to be necessary to constantly determine the percentage.

of depreciation as the operations of the Reparation Commission take place. Again, because of the fact that the United States paper dollar and gold dollar have the same buying power in the United States, United States dollars represent the only point that might be called stable from which to figure the percentage of depreciation in the currencies of the other Allies. United States dollars, therefore, can effectively be used as a basis for calculation. Rates of exchange under present conditions are fluctuating in large percentages, not only from day to day but during the business hours of each day. In establishing a rate in dollars from which to figure the depreciation in other currencies, it would be necessary, therefore, to accept the rates of some particular time of day. Fortunately, in connection with other matters an official rate is being established at 12 o'clock noon of each business day by the Federal Reserve Bank of New York covering the currencies of principal Allies. The establishment of such official rates can be extended to include the currencies of all of the countries necessary, including Germany, which will give a positive and properly established firm rate of exchange to act as a basis for all calculations. The Federal Reserve Bank of New York would undoubtedly be glad to furnish the Reparation Commission with an official copy of such rates as they are established from day to day.

In view of fact that the Federal Reserve Bank of New York does establish official rates daily at 12 o'clock noon, it would be more effective and work with greater justice to all concerned if recommendation be made to the Reparation Commission that the conversion rates for each transaction be those of the day of its consummation, and

not those representing a monthly average. By so doing it will not be necessary to wait before making calculations until monthly average rates can be ascertained, nor to accept the average rates of the previous month, which might be entirely out of line. Summarizing general results. With accounting in gold marks and conversions from Allied moneys into gold marks being made at mint pars of exchange, and percentages of depreciation of currencies being ascertained through the United States dollar based on official rates established by the Federal Reserve Bank, a smooth working, practical and legal system would have been established. The mint pars of exchange are fixed points beyond controversy. The treaty of peace distinctly authorized the Reparation Commission to establish prices and with no instructions to the contrary, their determination in the gold currencies is legal beyond doubt. Through the establishment of prices in the gold moneys which are to be converted into the gold mark, the Reparation Commission would be in position to operate with positive justice, as the price when arrived at would be the exact price which would be converted into money of account.

By taking the official rate of the Federal Reserve Bank of New York at 12 o'clock noon of each day, the determination of an average rate which otherwise would have to be established from mere opinion as to what constituted an average rate of a day would be eliminated, and the differences in time which exist between various foreign exchange centers could never be brought in through argument to throw uncertainty upon any exchange rates selected."

Our delegates' opinion that this proposal will be accepted by subcommittee and reported to Interim Reparations Commissions with their approval. Request this be referred to Strong of Federal Reserve Bank for his views and then taken up with Treasury Department for its approval prior to cabling Department's approval or modification of American delegates' position. Strong fully conversant with latest phases this question and his views therefore considered of great value. Question will have passed through subcommittee and will come up for consideration Interim Reparations Commission in about ten days. Polk.

CSL

AMERICAN MISSION.