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... Institute. Home: Worcester, Mass. Died Nov.
28, 1929.

LOGAN, James Addison, Jr., banker; b. Phila.
Pa., Nov. 11, 1879; s. Judge James A. and Elizabeth
(Marchand) L.; student Haverford (Pa.) Coll. 1 yr.;
grad. Army War Coll., 1912; LL.D., Haverford, 1925;
m. Esther Tone Griswold, May 22, 1925. Pvt. Bat-
tery A, Pa. Vols., Spanish-Am. War, 1898; capt. vols.
Philippine Insurrection, 1899-1900; entered U.S. Army
as capt., 1901; chief Am. Mil. Mission with French
Army, Sept. 1914-June 1917; col. Gen. Staff, asst.
chief of staff G.H.Q., A.E.F. Principal asst. to Her-
bert Hoover in relief operations in Europe after Ar-
mistice; European rep. U.S. Grain Corp., also in
charge coordinating operations of tech. advisers to
various new states of Central and Eastern Europe;
Am. rep. financial sect., Supreme Economic Council,
also of communications sect. same; adviser to Am.
Relief Administration in connection with Russian Re-
lief, June 1921-June 1923; resigned from Army, July

741

15, 1922. Asst. Am. unofficial del. to Reparation
Comm., Dec. 1919-July 1, 1923; Am. unofficial del.
to same, Aug. 1, 1923-May 31, 1925; Am. unofficial
rep., London Conf. of Prime Ministers, 1924. Finance
Ministers' Conf., Paris, 1925. Associated with Dillon,
Read & Co., bankers, June 1925—. Protestant. Home:
Bala, Montgomery Co., Pa. Deceased.

LOGAN, James Addison, Jr.



ASSISTANT SECRETARY OF THE TREASURY
WASHINGTON

May 24, 1921.

My dear Governor:

MAY 31 1921

Referring to our telephone conversation, I enclose for your information a copy of the Secretary's letter of this date to the Secretary of State with regard to the telegram of May 17, 1921, from the Unofficial American Representative on the Reparation Commission as to the plan to realize in dollars on gold and foreign currency received from Germany.

Very truly yours,

S. D. Gilbert

Benjamin Strong, Esq.,
Governor, Federal Reserve Bank,
New York, N. Y.

1 enclosure.

C O P Y

(COPY EMC-SS)

Comp-

UNITED STATES UNOFFICIAL DELEGATION
REPARATION COMMISSION

18 Rue de Tilsitt, Paris,
29th August, 1921.

My dear Mr. Secretary:

At Mr. Boyden's direction and in his absence, I enclose herewith copy of a letter which we have just sent to the President of the Committee of Guarantees under date of August 22, 1921. As you know, there is a growing feeling in all quarters, and particularly in serious financial circles, that Germany cannot possibly meet the conditions imposed upon her by the schedule of payments -- at least during the next few years. It might be possible for Germany to meet the conditions if some working scheme for large deliveries in kind were arranged and put into immediate effect. While there has been much conversation in this direction, little has been accomplished to date. Even with this relief, Germany has still to meet other payments imposed on account of army costs, clearing house balances, expenses of various commissions, etc.

A conservative view of the general situation is that Germany will default under the existing schedules of payments or other Treaty obligations some time next year. In view of public opinion in France and the inability of France and Great Britain to get together, the serious economic and political consequences of such an early default can be readily foreseen. We are convinced that if this situation is not shortly straightened out, serious difficulties of both a political and economic character will occur. At Mr. Boyden's direction I filed this letter with the Committee of Guarantees in the hope that the proposals might act as an opening wedge leading to changes in the present schedule of payments on a more conciliatory and businesslike basis.

Faithfully yours,

JOHN A. LYNCH
LOGAN, Jr.

Hon. Henry P. Fletcher,
Under Secretary of State,
Washington, D. C.

May 24, 1921.

Dear Mr. Secretary:

I have the honor to acknowledge receipt of the Assistant Secretary of State's letter of May 20, 1921, transmitting for the information of the Treasury a paraphrase of a telegram dated May 17, 1921, from the Unofficial American Representative on the Reparation Commission with regard to the plan of the Commission to handle certain reparation payments received from Germany by transmitting gold to the United States for sale for dollars and exchanging other currency for dollars, with resulting dollar deposits in the United States. I have given careful consideration to the subject of this telegram and discussed it with the Federal Reserve Board and Federal Reserve Bank of New York. The Treasury has no suggestions to offer, but wishes to transmit for your information and attention an informal suggestion received from the Governor of the Federal Reserve Bank of New York that if the foreign currencies which are to be exchanged for dollars involve any substantial sales of South American and Central American balances which may be available to Germany, the operation of exchanging these balances for dollars ^{may} ~~be~~ further disrupting the South American and Central American exchanges with this country. In view

of this suggestion, it may be that the State Department will wish to exercise sufficient supervision over the exchange operations proposed in the Reparation Commission's plan to safeguard the foreign trade of this country against undue disturbance of the exchanges.

Very truly yours,

(Signed) A. W. Mellon

Secretary.

The Honorable
The Secretary of State,
Washington, D. C.

SPG:MRS

C O P Y

CABLE MESSAGE FROM THE DEPARTMENT OF STATE.

TO THE AMERICAN AMBASSADOR AT PARIS,

May 24, 4 p. m., 1921, No. 268.

PARAPHRASE

Communicates for Boyden a message B-240. Reference is made to the Embassy's cable message of April 6, B-444, and the message of the Department of State of March 26, 1921, B-218. Message is marked urgent and in confidence. The Department is advised by Speyer and Company that they are considering a proposition to lend money to Germany to be expended in the purchase of products of the United States. They ask that you will express your personal opinion on the points mentioned below: One. Would it be proper that the firm should apply directly to the Commission on Reparation for the purpose of obtaining the Commission's consent that priority should be granted to an issue of treasury notes, which issue would have priority over the obligations of Germany resulting from the stipulations of the peace treaty? Two. Would it be proper for the firm to transmit this application through the delegation of the United States? Three. The firm has an agent in France residing in Paris. Should the application be made through him? If suggestion three is thought best and the application shall be made through him, should he and the United States delegation cooperate in making it? Four. What position would the Commission be apt to assume as regards the proposal of the firm, and what

procedure should properly be adopted with a view to obtaining the assent of the Commission? Five. To whom should the application be addressed, and what form should be used?

The details of the plans of the firm are not within the Department's knowledge and the fact that the Department forwards their request must not be taken as indicating that the United States endorses it. If, however, you find that you can discreetly and with propriety obtain the information desired by the firm, you will transmit it by cable.

Di-JT/ECD-SS

(COPY)

PARAPHRASE OF TELEGRAM.

From: The Unofficial American Delegate on the Reparation Commission,
through the American Embassy, Paris.

Dated: May 31, 7 P. M.
Received June 1, 5.47 A. M.
No. 360 - B-489.

This is supplementary to my B-482. Commission convinced that it is necessary, if possible, to find another method of protecting itself against exchange risk, because of effect of recent transfer German payment to the United States, also fear of effect of similar transfers in the future, and later retransfers to Europe. It is now planned to deposit payments in Belgian, English, French, and perhaps Italian banks, government where money deposited to assume exchange risk, and profits, if any, to go to such government. BOYDEN.

WALLACE.

C O P Y .

CABLE MESSAGE FROM AMERICAN EMBASSY, PARIS
MAY 31, 7 p.m., 1921. No. 360

PARAPHRASE

Communicate^s a message from Boyden B-489 sent as a supplement to his message B-482. The Commission has become convinced that, if the change is found possible, they must find a way to avoid the risk of loss by exchange in the matter of Germany's reparation payments. This conviction has resulted from the change produced by the recent payment transferred to the United States in settlement of Germany's reparation debt. The Commission appreciates that similar transfers in the future and re-transfers to European countries may damage the latter. The Commission has now under consideration a plan that the German payments should be deposited in banks of Belgium, Great Britain and France and possibly in those of Italy. In this event the Government of the country in whose banks the payments are deposited will take the loss by exchange itself, if there be a loss, and the gain, if there be a gain.

Di-JT/JMH-SS

May 31, 1921.

Dear Mr. Gilbert:

Thank you for your note of May 24, enclosing a copy of Secretary Mellon's letter of May 24, addressed to the Secretary of State, on the subject of the scheme for making reparation payments.

My only suggestion in regard to this letter is that the comment should not be confined to South American and Central American countries alone, although there, probably, greater difficulties would result from large transactions than in European markets, where the exchanges are broader and more active.

We will need a little experience in handling this matter before it is possible to gage the effect of the scheme now proposed. There has been a very sharp decline in the rates for sterling, and a less important decline in some of the other exchanges, which was caused by large purchases of dollars by Germany, or by those representing Germany in arranging these payments. A few months ago, \$15 millions was paid into us, one-half for the credit of the Bank of England, and one-half for the credit of the Bank of France, but really for account of the Reparation Commission, and we have within the last day or two received further payments aggregating \$35 millions for credit of these two institutions. It is currently reported that the German Government has delivered treasury bills indorsed by certain German banks, aggregating the equivalent of \$200 millions, \$30 millions of which will be payable in sterling, \$60 millions payable in francs, and \$80 millions payable in dollars, within a period of sixty days (unless renewals are arranged). To what extent these payments, predicated

May 31, 1921

upon previous accumulations of dollars, may disturb the exchanges, cannot now be forecast, but it seems to me that the Department of State, and especially our representatives in Paris, should have a careful eye upon the situation, and should especially keep us promptly informed of proposals before they are actually consummated in agreements.

Yours very truly,

Benj. Strong,
Governor.

Honorable S. P. Gilbert, Jr.,
Assistant Secretary of the Treasury,
Treasury Department,
Washington, D. C.

BS:MM



ASSISTANT SECRETARY

TREASURY DEPARTMENT

Washington.

June 8, 1921.

B.A.
JUN 13 1921

My dear Governor:

I transmit herewith a copy of another paraphrase
of a cablegram from Mr. Boyden, the Unofficial American
Representative on the Reparation Commission, with regard
to possible changes in the procedure for handling German
reparation payments. I enclose also a copy of my reply
of this date. The Treasury will be glad to have any
comments or suggestions which the Federal Reserve Bank
of New York may be willing to offer in the matter, in
order that the Department of State may be further advised
as to the views of the Treasury and the Federal Reserve
Bank.

Very truly yours,

S. D. Gilluly

Benjamin Strong, Esq.,
Governor, Federal Reserve Bank,
New York, N. Y.

2 enclosures.

RECEIVED

GOVERNOR'S SEC'Y.

RECEIVED
GOVERNOR'S SEC'Y.



JUN 10 1921

June 8, 1921.

The Honorable,

The Secretary of State.

Sir:

By direction of the Secretary, I acknowledge receipt of your letter of June 4, 1921, with the enclosed paraphrase of a telegram dated May 31, 1921, from Mr. Boyden (No. 489) stating that the Reparation Commission is endeavouring to find a different method of handling the reparation payments received from Germany in order to protect itself against the exchange risk. There is no doubt that the recent transfers of reparation payments to the United States and the prospect of similar transfers in the future have had a disturbing effect on the exchanges between this country and Europe, and the Treasury is much interested in the suggestion that the Commission proposes to make deposits of future reparation payments in Belgian, English, French, and perhaps Italian banks, in order to avoid the risk of loss by exchange. Copies of the telegram in question, together with a copy of another paraphrase of Mr. Boyden's telegram No. B-489, have been sent to the Federal Reserve Bank of New York with a request for its comments and suggestions. Upon receipt of advices from the Federal Reserve Bank of New York, the Treasury will communicate further with the Department of State in the matter.

Respectfully,

(Signed) S. P. Gilbert, Jr.

Assistant Secretary of the Treasury.

SPG/AMM



CABLE MESSAGE FROM AMERICAN EMBASSY AT PARIS, JUNE 6,

10 p.m., 1921. No. 371.

Communicates a message from Boyden, B-494

COPY

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Commission adopted following provisional plan organization committee guarantees which communicated to German Government. (text in brief. For articles references this letter except treaty articles see our B-474) "In accordance with schedule payments notified by commission to German Government May 5th and in execution paragraph seven, Annex two, part eight treaty, Commission provisionally determines following organization committee guarantees as prescribed article six schedule: under provisions latter article committee guarantees consists one representative each power now represented on commission including United States in event latter appointing representative. On no occasion shall more than five above powers have right take part proceedings committee and record votes. Representatives United States, (in event appointing representative) Great Britain, France and Italy have right all occasions.

Request

Request for Belgium right all occasions other than those below. Request land force right on questions relating damage sea and right arising under article 260, part nine, when Japanese interests under consideration.

Representative Sequinia right when questions relating Austria, Hungary and Bulgaria under discussion. Commission provisionally appoints assistant delegates on commission as members Committee Guarantees also provisionally appoints members from some service to assist members Committee Guarantees their respective nationalities and to act as deputies in absence such members. Sub-paragraph. Seat committee provisionally Paris but may be transferred with approval commission any other place including Germany.

Sub-paragraph. Committee under direction commission charged with following duties: first. To secure application articles 241 and 248 treaty. second. To supervise application to service of bonds prescribed two schedule payments of any funds that may be proportioned as security for payments to be made by Germany in execution article four said schedule as follows: (a)- proceeds all German maritime and land customs duties and in particular proceeds all import and export duties; (b)- proceeds of 25 per cent levy on value all German exports except those upon which levy of not less than

25 per cent

25 per cent applied under legislation referred to in article 9 schedule; (c)- proceeds such direct or indirect taxes or any other funds as may be proposed by German Government and accepted by committee guarantees in addition to (opening?) (subscription?) for funds specified in (a) and (b) above. Third. To supervise payments by German Government in gold of foreign currencies approved by committee of funds set aside for service of bonds into accounts opened in name of and supervised by said committee. Fourth. To assure itself that no measures taken liable to reduce proceeds of funds set aside as above. In event adoption any scheme whatsoever liable reduce these proceeds German Government shall notify committee guarantees of said scheme and latter may require German Government to substitute other funds approved by committee for those withdrawn. Five. To verify and if necessary rectify on behalf of commission total amount funds set aside for service of bonds. Six. On behalf commission to examine German system taxation as provided in paragraph 12-B of annex two (See our B-473 giving amended text paragraph 12-B, annex two treaty). Seven To verify and if necessary rectify on behalf commission total amount declared by German Government as being value German exports upon which to calculate 26 percent payable under sub-

paragraphs

papagraphs two, three of article four schedule. Right. To take any other measures considered necessary insuring regular fulfillment its duties without however interfering with German administration. Sub-paragraph. Committee guarantees functions as from May 28."

PARAPHRASE

The following were elected at the Committee's first meeting: President, Mauclore of France; Vice President, Bemelmans of Belgium. The above-mentioned were placed on the Commission engaged in the matter of demarkation and steps were then taken by the Committee to conclude how the latter should be made up and what method of procedure should be adopted. The members serving for Serbia and Japan take no part in demarkation. A temporary selection was made of assistant delegates and representatives of the service of finance to serve on the Committee, and Paris was chosen to serve temporarily as a place for the Committee's meeting. This was done with a view to make certain, during the period of formation, that the work of the Commission and the Committee should be properly coordinated. There is a consensus of opinion among the delegates that close relation should exist
between

between the officials of the German Government and the Committee, that the latter body should know what measures are being adopted by Germany and the ground of their adoption and in the event that Germany should fail to make payments according to the terms of the schedule, the Committee should be able to understand why the failure occurred and whether it was of a bona fide character. It is true that the first duty of the Committee is to watch over the question of the bonds in the interests of the holders thereof, but it is a matter of importance also that the judgment of the Committee on the matters mentioned above should be at the service of the Governments of the allies and for the purpose of advising public opinion throughout the world. In order that the Committee should perform the two duties last mentioned, the Committee should be supplied with the best advice in regard to economy and finance. What I have stated above tends to indicate that, at a later date, the Committee's composition may be altered and that Berlin may be selected as its seat of operation. However, the financial guarantors who may undertake to sell the bonds to the investing public will probably decide as to the final composition of the Committee and as to its procedure. If attempt is made to sell the bonds in the United States markets

markets it is evident that this would lead to the purchasers laying down certain conditions as to how the Committee should be organized and what procedure it should adopt, indeed representation of an active character on the Committee may be demanded.

Organization of the Committee is now proceeding and it intends, at an early date, to visit Berlin for the purpose of learning what Germany's representatives have to say respecting its operations and of conversing with those representatives. While the Committee maintains its temporary organization Hess and Logan will, of course, act for the United States as unofficial observers, in view of their previous duties of an unofficial character.

JT/JME-SS



ASSISTANT SECRETARY

TREASURY DEPARTMENT

Washington,

June 9, 1921.

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JUN 13 1921

My dear Governor:

In connection with our correspondence as to the German reparation payments, I enclose for your information a copy of a cablegram from the American Embassy at Paris, No. 360, transmitting a message from this Government's unofficial representative on the Reparation Commission, as to possible changes in the procedure for handling the reparation payments. It would appear from this message that the effect which the transfers to this country have had upon the European exchanges has not been altogether satisfactory from the point of view of the Commission and the European Governments involved, and that on this account there is some prospect of relief from similar transfers in the future.

Very truly yours,

J. D. Gillum

Benjamin Strong, Esq.,
Governor, Federal Reserve Bank,
New York, N. Y.

1 enclosure.

June 8, 1921

Dear Sir:

I have the honor to acknowledge the receipt of your letter of June 7, 1921, in relation to the proposed issue of \$100,000 of National Bank Notes, and in reply to inform you that the same has been forwarded to the Federal Reserve Board for their consideration.

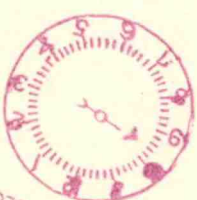
I am, Sir, very respectfully,
Your obedient servant,
J. Edgar Hoover,
Director.



JUN 10 1921

25.2

JUN 10 1921



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GOVERNOR'S SECY.

FEDERAL RESERVE BANK
NEW YORK

TELEGRAM

WIRE TRANSFER
DIVISION

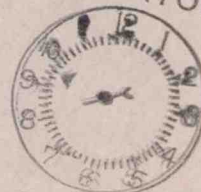
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29bd mq Washington Dc 9th 444p

Strong.

State Dept has transmitted following paraphrase of a cablegram from Boyden, this governments unofficial representative on the reparations commission; "the commission has become convinced that if the change is found possible, they must find a way to avoid the risk of loss by exchange in the matter of Germany's reparation payments. This conviction has resulted from the change produced by the recent payment transferred to the US in settlement of Germanys reparation debt. The commission appreciates that similar transfers in the future and re-transfers to European countries may damage the latter. The commission has now under consideration a plan that the German payments should be deposited in Banks of Belgium Great Britain and France and Possibly in those of Italy. In this event the Government of the country in whose banks the payments are deposited will take the loss by exchange itself, if there be a loss, and the gain, if there be a gain." Would be glad to have statement of your views. Letter follows.

937a Gilbert

TELEGRAPH
OPERATORF. R. B. N. Y.
JUN. 10



JUN 10 1934

RECEIVED
FEDERAL RESERVE BANK
ST. LOUIS, MO.



ACKNOWLEDGED

JUL 25 1921

JAMES A. LOGAN Jr.

B. S.

Paris, 7 rue de Tilsitt.
6 July, 1921.

PERSONAL

My dear Ben,

I have been in Berlin for the last month. Upon my return to Paris I found your nice letter which I read and immediately destroyed. I cannot tell you, old man, how much I appreciate your kindness and good advice in this matter. Frankly, I was very much touched by the tone of your letter which I really appreciate. While I felt very much the same as you did about the gentleman in question, I nevertheless was getting a little bit restless. I definitely made up my mind some months ago that I would quit the Army at the first favorable opportunity. It now looks as if we would have some official connection with the Reparation Commission, and while I may be fooling myself, I am inclined to think the Authorities will want me to stay on as Assistant Delegate. If the situation develops as I see it, and if I am offered the job, I will immediately resign from the Army. As Assistant Delegate I would get a good salary and would be in a good tactical position to work ^{up} something else. I can cable my Army resignation at any time.

I had a most interesting time in Berlin as an observer with the Committee of Guarantees. For your personal and confidential information I enclose herewith draft of a cable report to the State Department concerning the work in Berlin. I believe this will interest you. I also enclose copy of the Schedule of Payments which you will need for reference when reading the draft cable. 7/4/21

Again all my thanks to you and with warmest personal regards, I remain,

Faithfully yours,

James A. Logan

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

Bayan Shing, Esq.

Secretary of the Board who
is naturally well informed

MR. JAMES ADDISON LOGAN, JR.

regarding the whole

European situation

Fryer

600 mo. Club.

Charge State

Prepared by:
James A. Logan, Jr.

OUTGOING DESPATCH

4 July, 1921.

Confidential

Committee Guarantees after two weeks sittings and hearings Germans Berlin returned via Coblenz June twenty ninth. Purpose of meeting arrange practical details of Schedule of Payments BRACKETS Reparation Commission Annex 908 BRACKETS Discussion was frank. Good spirit both sides. Following brief Logan Hess report.

PARAGRAPH ONE Germans Berlin wanted discuss new index as suggested subheading (b) paragraph two article four Schedule Payments. Committee refused stating Reparation Commission solely competent. Word "equivalent" in subheading (b) unfortunate because necessarily makes new index dependent on old index. Real purpose index is to measure Germany's economic prosperity. If any satisfactory measure even discovered, this language must be changed before can be adopted, but fact that present index naturally tends restrict German exports so hampering her economic prosperity generally recognized.

SUBPARAGRAPH A. Germans requested definition word "exports" subheading (a) article four Schedule claiming fallacy using "total export figure" as index prosperity or as basis annual payments. Pointed out that index practically results in actual 26% tax on each class exports with result exports which cannot bear burden will automatically cease to disadvantage not only Germany but also countries from which latter buys and to which Germany sells. They argued ability exports bear 26% not determinable by viewing industry collectively or averaging wide margin industries with narrow margin finishing and commission business. Committee as result of this discussion referred to Reparation Commission following questions

relating to valuation of exports for purpose of applying 25% index: (a) whether value imported raw material should be deducted from export value manufactured product; (b) Should value goods manufactured outside imported by Germany merely for purpose resale outside Germany be included in exports; (c) Same question goods foreign origin subject only in Germany to commission operations; (d) Should value Reparation deliveries like coal be included in exports; (e) Various articles are both imported and exported by Germany. For instance coal, wheat. Should gross exports be reckoned, or merely excess exports over imports these articles.

PARAGRAPH TWO. German proposal for payments assumed German exports nineteen ^{at} twenty five milliard gold marks, thus total annual obligation three milliard three hundred million gold marks. Also assumed value deliveries in kind (a) one milliard three hundred fifty million; (b) also two hundred sixty million Allied collections by Reparation Recovery Acts assuming all follow British example reducing collections to 25%; (c) Foregoing leaves one milliard six hundred ninety million gold marks to be obtained other source for which they offered Committee Guarantees receipts following revenues totalling twenty five milliard paper marks BRACKETS figures revenues below expressed paper marks ENDBRACKETS, viz:

Tax on capital revenue	one milliard four hundred million
Tax on sugar	one milliard two hundred million
Brandy monopoly	one milliard five hundred million
Tax on tobacco	two milliard seven hundred million
Tax on coal	four milliard five hundred million
Turn-over tax (Umsatzsteuer)	thirteen milliard seven hundred million

UNQUOTE

SUBPARAGRAPH A. Foregoing revenues represent important increases present receipts same sources. In certain cases laws increasing taxes drafted and before Reichstag, in other cases laws not drafted. Germans' calculations based on exchange rate approximately fifteen paper marks equalling one gold mark.

SUBPARAGRAPH B. AS method obtaining foreign exchange Germans proposed

continuing present method foreign exchange purchases through Central Exchange Office BRACKETE Devisenratellungen KIDBRACKETE. Latter office operates as semi-Governmental agency purchasing quietly through banks and bourses. This office last year purchased over twenty three milliard paper marks foreign exchange. During January-May nineteen twenty one foreign exchange purchases approximated thirteen milliard. This exchange used account Reparations, Clearing Offices, International Postal, Telegraph and Railway settlements, essential food supplies and minor Governmental commitments. Food control to be released shortly, purchases thereafter open market.

PARAGRAPH THREE. View obvious exchange uncertainties Committee limits demands on Germany to gold mark values.

PARAGRAPH FOUR. Committee after hearings communicated Germans June twenty eighth its decisions in five notes briefed as follows COLON

SUBPARAGRAPH A - NOTE ONE QUOTE General principles. While appreciating arguments proposing substitution other resources than those specified paragraphs a and b article seven Schedule, Committee cannot present stage agree so must base execution Schedule primarily on resources specified. Consequently alternative revenues proposed only require consideration so far as specified resources not sufficient to guarantee full obligation. Note deals separately with (A) obligations of Germany for year nineteen twenty one nineteen twenty two; (B) obligations of Germany future years. Distinction due fact first instalment variable annuity due only November fifteenth. Committee provisionally willing accept German estimate nineteen twenty exports value five milliard gold marks. Committee provisionally admits value deliveries kind current year one milliard two hundred million gold marks. As Reparation Recovery Act present only in force United Kingdom, Committee provisionally admits only one hundred fifty million gold marks. Provisionally

admits customs yield two hundred million gold marks. Finally twenty five percent export levy produces one milliard two hundred fifty million gold marks per annum less Recovery Act receipts or two hundred seventy five million gold marks per quarter which figure provisionally admitted.

SUBPARAGRAPH B. For year nineteen twenty one nineteen twenty two obligations are COLON (a) four instalments five hundred million gold marks; and (b) two quarterly instalments variable annuity due fifteenth November and fifteenth February next, provisionally estimated on above basis at three hundred twenty five million gold marks each. Obligation to thirtieth April nineteen twenty two therefore two milliard six hundred fifty million gold marks. To be covered by (a) one milliard gold marks article five Schedule; (b) one milliard two hundred million gold marks deliveries kind; (c) one hundred fifty million gold marks Recovery Act. This leaves balance three hundred million gold marks required secured by resources specified article seven Schedule. Committee accordingly considers payment customs effective from fifteenth November next and payment levy twenty five percent exports effective from fifteenth December next will yield three hundred million and requests not Germans make necessary arrangements. Provided above estimates realised/necessary resort year nineteen twenty one nineteen twenty two to other resources those specified article seven Schedule.

SUBPARAGRAPH C. For future years impossible exactly estimate Germany's obligations but provisionally assumed as three milliard three hundred million gold marks. To be covered by (a) deliveries kind one milliard two hundred million; (b) Reparation Recovery Act receipts and twenty five percent export levy one milliard two hundred fifty million; (c) customs two hundred million total two milliard six hundred fifty million leaving deficit six hundred fifty million gold marks.

SUBPARAGRAPH D. Foregoing deficit must be covered additional assigned revenues. Proposed tax revenues, as revised by Committee, yield one milliard three hundred million gold marks or double amount required. Committee willing accept fifty percent yld provided six hundred and fifty million gold marks actually realized reserving right require larger percentage if necessary meet any deficit Schedule Payments. Therefore starting first May nineteen twenty two Committee will receive (a) customs; (b) twenty five percent levy exports and (c) in addition such percentage as necessary of assigned revenues proposed and accepted by Committee.

SUBPARAGRAPH E. Committee reserves rights under article two forty eight Treaty to protect service bonds in all circumstances UNQUOTE

SUBPARAGRAPH F. NOTE TWO QUOTE - Interpretation of exports and change index UNQUOTE See paragraph one and subparagraph A this cable.

SUBPARAGRAPH G. NOTE THREE QUOTE - Levy on Exports. Refers to Germans presentation economic and political difficulties resulting direct export levy twenty five percent paragraph b article seven Schedule. States levy Schedule Payments not any sense tax but method procuring necessary foreign values. Committee willing accept alternative resources if assuring required foreign values but no scheme yet advanced fulfills this condition. Under circumstances cannot renounce export levy and requests Germans prepare measures necessary to make levy operative. Committee however agreed actual operation system deferred subject following reserves and guarantees, viz COLON For each quarterly payment under Schedule Committee will determine sum representing twenty five percent value exports during previous quarter with deductions Recovery Act collections same period. Germans to pay this sum in advance in three equal instalments, viz COLON The first two months before; the second one month before and balance on quarterly date fixed by

Schedule. As regards current year, Committee assumes value deliveries kind effected since May first last sufficient cover payments due February fifteenth next so above arrangement will apply to payment due February fifteenth and first instalment payable December fifteenth. Committee reserves right put direct levy in operation any moment. Foregoing does not free Germans from obligation notifying Committee under paragraph eight article seven any proposed action diminishing receipts twenty five percent levy UNQUOTE

SUBPARAGRAPH H. NOTE FOUR QUOTE Customs. Notes German difficulties assignment export and import duties as guarantees when tariffs in transitional stage BRACKETS Germans now engaged negotiating new commercial treaties and this provision embarrassing ENDBRACKETS Difficulty results from paragraph eight article seven Schedule. Consequently Germans request authorization substitute other resources for proceeds customs accordance with concluding words paragraph C article seven Schedule. Committee refuses this demand but renounces provisionally rights receive prior notice of proposals affecting custom policy but Germany must inform Committee arrangement when made. Renunciation holds until May first nineteen twenty two subject renewal but Committee reserves right terminating any moment. Payments account customs start November fifteenth, deposits being effected monthly. Deposits held in trust until dates when payments become due under article four Schedule UNQUOTE

SUBPARAGRAPH I. NOTE FIVE QUOTE Control Organization. Committee creates permanent Delegation Berlin function to verify German statistics affecting payments under Schedule. Committee contemplates statistical control with occasional verification German data at sources by restricted number traveling inspectors UNQUOTE

PARAGRAPH FIVE. Committee heard Germans June twenty ninth after delivery above notes. Latter offered only two objections, viz SOLON (a) question necessity

of Committee now taking fifty percent receipts all taxes listed as contemplated Note One. Action Reichstag facilitated if list reduced. Committee asked written proposals; (b) Questioned extensive control implied Note Five as harmful German public opinion. Committee agreed suspend application contemplated control except creation Berlin Delegation, asking Germans in turn to draft plan control inoffensive public opinion but covering responsibilities Committee under Schedule.

~~PARAGRAPH SIX.~~ PARAGRAPH SIX. Germans complained unjustified continuation economic sanctions Rhineland. Claiming Rhineland Commission licensing imports to value between five hundred million and one milliard paper marks monthly including luxury and other articles German prohibited list. Drew attention to licensing foreign importation spirits for Rhineland and refusal permit importation into same territory from large surplus German stocks, also parcel post packages to eleven pounds permitted enter without inspection or duty. Germans pointed to effect all foregoing on exchange and ability meeting payments service bonds. Committee on invitation Rhineland Commission conferred with latter Coblenz June thirtieth. During Conference British, Belgian Commissioners and Italian commercial observer openly expressed views that economic sanctions are administered purely as sanctions regardless economic consequences. Commission stated orders Council Ambassadors directed them QUOTE to use utmost liberality granting licenses wherever possible giving preference importation Allied commodities UNQUOTE which instructions they were following with no authority disregard. Commission stated German figures value licensed imports to date exaggerated but real effect would be felt when formidable deliveries under three months' licenses ~~at~~ already granted actually commence. Commission stated their instructions contemplated enforcement German customs regulations and in addition licensing imports prohibited by German regulations. Regarding spirits if any shortage

supply Rhineland instructions contemplate making good shortage by foreign import rather than by import from Germany. Commission stated licenses granted valid three months irrespective continuation sanctions.

SUBPARAGRAPH British, Belgian and Italian Members Committee Guarantees jointly presented resolution proposing Committee advise Allied Governments QUOTE taking purely economic standpoint and aiming only at execution Schedule Payments considers it ought to point out that Schedule Payments might be more completely executed and bonds prescribed by that Schedule more fully guaranteed if economic sanctions at present in force in Rhine territories were suppressed UNQUOTE French member declined joining but agreed with action Committee that full extract Minutes including resolution be sent officially by Secretary Committee to each member requesting latter transmit same his Government which was adopted.

PARAGRAPH SEVEN. Above report refers only German payments under Schedule. Does not include payments Cost Armies Occupation at present estimated between two hundred forty and five hundred million gold marks per year and clearing office commitments approximating five hundred million gold marks within next two years, latter questions not falling within purview Committee.

PARAGRAPH EIGHT. Copies German proposal and Notes Committee including Committee's Rhineland resolution left confidentially with Dresel. Mailing full text of Notes with some comments.

~~SECRET~~

ANNEX NO. 973

Letter from the Kriegslastenkommission concerning the currencies in which Germany should effect her payments.

DEUTSCHE KRIEGSLASTENKOMMISSION.

No. W. 3171.

Paris, June 11, 1921.

Referring to the 161st Meeting of the Finance Service of the Reparation Commission, held on May 28, 1921, I beg to point out once more the undesirable consequences to the currencies of all the countries concerned if Germany is compelled to pay in dollars all the instalments necessary to redeem the three months' drafts handed over by the German Government to the Reparation Commission.

In order as far as possible to obviate these consequences, I take the liberty of laying the following proposals before the Finance Service:

1. That the Reparation Commission signify its willingness to accept also payments in other currencies, to be determined by itself.
2. That the Reparation Commission inform me at once of the currencies in which it desires to receive the payments to be made by Germany up to the end of this month.
3. That the Reparation Commission state between July 1 and 5, and between August 1 and 5, the currencies in which it desires to receive the payments to be made up to the end of July and up to the end of August.
4. The German Government cannot at present state even

approximately

approximately the maximum payments that it will be able to make to the Reparation Commission in the various months. The amount of such payments depends absolutely on the state of the currency market in each case. The German Government can therefore only propose that the communications requested in paragraphs 2 and 3 be made, so as to indicate the percentage of the total payments to be effected up to the end of the month in question which the Reparation Commission would be willing to receive in currencies other than dollars.

5. In regard to the rate of exchange at which the various payments in foreign currencies must be converted into gold marks, the German Government considers that the rate to be adopted must be the rate current in New York on the day on which the payment is actually made.

In regard to payments soon to be made the German Government would desire to effect a certain percentage, to be determined by the Reparation Commission, in Italian lire. The German Government has now 45 million lire in the Banca d'Italia at Rome, the proceeds of advances on coal. This sum might be put at the immediate disposal of the Commission as a payment on the reparation account.

I should be extremely obliged if you could give me an early reply to these proposals.

Signed: Von Cernetz.

- - - - -

CONFIDENTIAL

COPY - FMK:SS

COMP. *ahm*

Reparation Commission.

ANNEX NO. 974 a,b.

a. Draft reply to the letter from the Kriegslastenkommission relative to the currencies in which Germany should effect her payments.

b. Draft decision concerning the currencies in which Germany should effect her payments.

Note. The two drafts were adopted without amendments at the 198th and 199th meetings. (Decisions 1368 and 1369).

ANNEX 974 a.

DRAFT.

From the Reparation Commission.

To the Kriegslastenkommission.

The Reparation Commission has the honour to refer to the letter W.3171 addressed to it on the 11th June by the Kriegslastenkommission and received on June 13, on the subject of the currencies in which the Commission desires to accept payment in redemption of the drafts issued by the German Government under Article 5 of the Schedule of Payments.

In order to avoid any disturbance of the exchanges, the Commission considers that, during the month of June no further purchases of dollars should be made. It is prepared to accept payment during this month as follows:

Pounds sterling to an amount of £10 million;

Belgian francs to an amount equivalent to 25 million gold marks;

French francs or pounds sterling within the limits indicated

ated below.

Other currencies to an amount equivalent to a total of 100 million gold marks, within this total of 100 million gold marks, the Reparation Commission is prepared to accept:

Swiss francs to a total of 35 million Swiss francs;

Dutch florins to a total of 30 million Dutch florins;

Scandinavian crowns to a total of 30 million Scandinavian crowns;

Pesetas to a total of 15 million pesetas.

In any case the Commission would be glad to obtain payment of at least 20 million Swiss francs.

The Commission finds it necessary to adopt as the rate of exchange for calculating the gold credit to Germany for these payments, not the actual rate of the day of payment, but the average of the rates of the date on which payment was effected and of the two preceding days.

The rates taken will be:

For pounds sterling: the average rate of exchange indicated and certified by the Bank of England of the pound to the dollar on the London market.

For French francs: the official rate of exchange of the French franc to the dollar in Paris.

For Belgian francs, the official rate of exchange of the Belgian franc to the dollar in Brussels.

For payment in Swiss francs, Dutch florins, Scandinavian crowns and pesetas, the gold mark credit will be calculated in the following manner:

The

The value of these currencies will be calculated in French francs at the average rate of exchange prevailing between them and the franc on the Paris Bourse on the day of payment and of the two preceding days.

The franc value thus obtained will be translated into dollars at the average rate of exchange of the franc to the dollar on the Paris Bourse for the same days.

It is obvious that this system has the disadvantage of giving an opportunity for the manipulation of the exchanges. In the event of any such manipulation taking place, the Commission reserves to itself the right to adopt another arrangement that may appear to it more desirable.

In accordance with the desire expressed by the German Government, the Commission will notify to it between the 1st and the 5th of the months of July and August, the currencies which it is able to accept in payment in the course of each of these months.

Finally, the Commission notes that the German Government desires to make a payment in Italian lire and hopes to address a further communication to the Kriegslastenkommission on this subject in the near future.

- - - - -
ANNEX 974 b.

Reparation Commission.

16th June, 1921.

DRAFT DECISION
concerning the currencies in which Germany should effect her payments.

I

In order to avoid disturbance in the dollar exchange in consequence of the purchase by Germany of large quantities of dollars to meet the payments due under the Schedule of Payments

ments and pending the adoption by the Conference of the Allied Governments, which is to meet shortly, of definite recommendation concerning the definite distribution of reparation funds, it is decided to adopt for the month of June 1921 the arrangement described below, on the understanding that the Commission reserves the right to have recourse to any other arrangement should difficulties arise in the execution of that tentatively adopted for this month.

II

The Commission takes note of the agreement of the Governments of Great Britain, France and Belgium to assume the risk of losses and gains on exchange resulting from payments made by Germany in certain European currencies and up to certain definite limits.

Any loss or gain on exchange resulting from these operations will be carried to the debit, or the credit (as the case may be) of the Power guaranteeing the currency, in the books of the Reparation Commission.

Great Britain agrees to guarantee sterling to an amount of £10 million.

Belgium agrees to guarantee Belgian francs to an amount equivalent to 25 million g. m.

France agrees to guarantee French francs, £ sterling and other currencies within the limits defined below to an amount equivalent to 100 million gold marks.

The limits to which France is prepared to guarantee currencies other than French francs and pounds sterling are.

Swiss francs, 35 million.

Dutch florins, 30 million.

Norwegian, Swedish or Danish crowns: 30 million.

Pesetas:

Pesetas: 15 million.

France desires, with regard to the currencies guaranteed by her, that payments should be made by preference over all other currencies in Swiss francs up to a total of 20 million Swiss francs.

The Commission decided to accept payments made by Germany in the currencies indicated above provided that they fall within the limits stated.

The Governments of Great Britain, France and Belgium will have a prior claim to take the risk on exchange resulting from payments made by Germany in their respective national currencies up to a limit of 10 million pounds sterling for Great Britain, 100 million gold marks in French francs for France, 25 million gold marks in Belgian francs for Belgium.

The payments thus made will be deposited to the account of the Reparation Commission in the national bank of the guaranteeing Power if these payments are made in the currency of that Power. If they are made in another money, they will be deposited either to the account of the national bank of the Power concerned in a bank chosen by it and situated on the territory of the Power, in whose currency the payment has been made, the State national bank remaining responsible vis à vis the Reparation Commission, or directly to the account of the Reparation Commission in a bank chosen by the Commission and situated on the territory of the Power, in whose currency the payment has been made.

Each of the guaranteeing Governments will receive from the Reparation Commission full authority to convert at any time into other European currencies the sums in connection with

with which they assumed the risk of exchange. The Governments concerned will notify the Reparation Commission without delay of any such operations as it may undertake. No conversion into dollars will be made except after an agreement between the various guaranteeing Powers.

In order to calculate the credit in gold marks to be given to Germany for payments in European currencies effected in virtue of the present arrangement, the Commission decides to adopt not the rate of exchange of the day of payment but the average of the rates of the day of payment and of the two preceding days.

The rates adopted as the basis of conversion will be the following:

For pounds sterling, the average rate of exchange indicated and certified by the Bank of England of the pound to the dollar on the London market.

For French francs, the official rate of exchange of the French franc to the dollar in Paris.

For Belgian francs, the official rate of exchange of the Belgian franc to the dollar in Brussels.

For payment in Swiss francs, Dutch florins, Scandinavian crowns and pesetas, the gold mark credit will be calculated in the following manner:

The value of these currencies will be calculated in French francs at the average of the rates of exchange prevailing between them and the franc on the Paris Bourse on the day of payment and on the two preceding days. The franc value thus obtained will be translated into dollars at the average rate of exchange of the franc to the dollar on the Paris Bourse for the same days.

III

The Commission reserves the right of the Italian Government to make a proposal analogous to those which have been made by the Governments of Great Britain, France and Belgium.

- - -

June 13, 1921.

Dear Mr. Gilbert:

I am in receipt of your telegram of the 9th, together with your letters of the 8th and 9th, with the enclosures mentioned, all relating to a possible change in the plan now in operation, by which the German Government is making reparation payments through this market.

We have assumed that the method so employed is practically unavoidable for the following principal reasons:

(1) The Allied governments would naturally select dollars for a large part of the payments because of the amount of the indebtedness owing by the Allied governments and their citizens in this country.

(2) If the burden of making payments in dollars is placed upon Germany, Germany assumes the risk of loss of exchange in furnishing needed dollars to the Allied governments.

(3) The United States being the only country which is free to ship gold, our exchange would naturally be preferred over others.

(4) Dollars are available for making payments in all parts of the world, and the possible loss due to a decline below gold parity is eliminated by the fact that we ship gold.

It is difficult to see how any arrangement can be worked out which will be satisfactory in operation, and which will relieve the Allied governments of possible exchange losses, due to the conversion of their own currency into dollars, in case dollars are required for making payment in this country. It seems to me that the Allied countries are somewhat in the position of a creditor collecting from a debtor and requiring the debtor to furnish checks upon a bank which is free from the restrictions of a moratorium, and upon which they can draw with freedom from such restrictions.

June 13, 1921.

I had assumed that the reported delivery by the German Government of three months Treasury bills, of which \$80 millions were payable specifically in dollars, was due to the demand of the Allied governments, and arose from the fact that they anticipated needing that amount of dollars.

Speculating somewhat upon the future developments of these payments, it would appear that as Germany is forced to accumulate foreign currencies in order to make these payments, the mark will decline, due to very excessive issues of their own currency. A further depreciation in the mark, unless accompanied by corresponding increases in wages, simply increases the advantage which Germany now seems to enjoy over other industrial nations in the cost of production. It may, therefore, be that Germany will enjoy an advantage in exporting manufactured articles to the other countries of Europe, and the rest of the world, and that payment for those articles will actually be made by drawing upon the dollars already paid to the credit of the Allied countries by Germany. If this operation is a continuous one, it would simply mean that Germany, as has all along been expected, would meet her reparation obligations by exports of goods, and that the banking transactions covering these reparation payments and exports would be conducted in dollars with our bankers.

If, on the other hand, ^{these} exports become a menace to the industrial recovery in Europe generally, we might expect the Allied countries, by the imposition of tariffs on their own imports, or export duties on German exports, to check the flow of goods out of Germany, in which event Germany would default.

It might be further suggested that the industrial stimulation would result in German labor being fully employed, and would lead to unrest among the laboring population, demands for higher wages, better standards of living, and gradually costs of production would approach production costs in other countries.

These suggestions are made simply to indicate the probability that these vast payments by Germany may lead to far-reaching, and possibly disturbing, developments in the world's trade and in the foreign exchanges, as great even as those caused by the financing of the war itself.

June 13, 1921.

I am not prepared to say that it would be wise for us to protest against the employment of our banking machinery for the conduct of these transactions. We must not overlook the fact that the dollars paid into this market must be spent here, and if not employed in paying interest to our government on loans made during the war, it is quite likely that they will be employed in purchasing American goods by the Allied governments or their citizens; or if employed in purchasing goods from Germany, they will possibly in turn be used by Germany, to some extent, in buying raw materials in this country.

It is, however, important that we should know just what is planned by the Reparation Commission, and I hope that Mr. Boyden will cable as soon as anything new develops.

Thanking you for keeping us informed, I beg to remain,

Yours very truly,

Benj. Strong,
Governor.

Honorable S. P. Gilbert, Jr.,
Assistant Secretary of the Treasury,
Treasury Department,
Washington, D. C.

BS:MM

C797

CRITICISM OF METHOD OF PAYMENT OF GERMAN WAR INDEMNITY.

From Alfred Nutting, Clerk in the American Consulate General,
London, England. June 16th 1921.

Approved IRVING N. LINNELL,
American Consul in Charge.

In an address to the Institute of Chartered Accountants in London on June 15th 1921, Mr. Reginald McKenna (formerly Chancellor of the Exchequer, and now chairman of the London Joint City & Midland Bank) uttered a serious warning in respect of the method by which the payment by Germany of the war indemnity is being enforced. By Germany's cash payment, he said, Great Britain is in danger of being ruined; if she pays by means of manufactured goods British world trade will be imperilled; but payment by means of raw materials and food would be advantageous.

He pointed out that, before the war, Great Britain and Germany were the largest exporters of manufactured and partly manufactured goods. From all manufacturing countries of the world, the total exports of the above mentioned articles in 1912 aggregated £1,300,000,000 of which the two countries named were responsible for £700,000,000. The effect of the 26 per cent tax on German exports and shipping.

On this point he stated that while the tax would compel Germany, in future competition, to produce goods at 74 per cent of the cost of corresponding goods in Great Britain, this would not be difficult if wages now current in Germany were not raised, - particularly of those goods manufactured from her own home produced raw materials, and finished articles on which the charge for labor is a high proportion of the whole cost.

Another resource to which Germany could turn for means of payment is contained in profits on shipping, and international banking and insurance, - all of which are not affected by the 26 per cent tax - Moreover reduction in wages, owing to the tax, would not be limited to German export trades; it would affect her shipping industry, and while ships would be built and manned on the German basis of cost, freight and passenger rates would be on the international level, - in other words the tax would constitute a bonus or preference to that amount in favor of German shipping, and also to banking and insurance. British Trade in danger.

Mr. McKenna proceeded to say: "The conclusion to which I am driven is that if Germany is able to meet her obligations she will in doing so gravely impair our own international trade. Her highly developed manufacturing and commercial power brings her into direct competition with us more than any other nation in the world, and, whether she pays through visible or invisible exports, it is our trade that will be mainly affected. If on the other hand, she fails to meet her

obligations, we shall be thrown back again into the condition of political unsettlement which is so perilous to European peace and so harmful to a trade revival.

It will perhaps be said, "Here's a paradox! If Germany pays her debt to us, it is argued that it will benefit German trade and injure ours. It has always been urged that it is good for our trade that we should buy in the cheapest market."

For my part I think the paradox is capable of a simple explanation.

IT IS NOT THE PAYMENT OF THE GERMAN GOODS WHICH CONSTITUTES AN INJURY TO OUR TRADE, BUT THE GERMAN CAPACITY TO PAY US. WE FORCE LABOUR CONDITIONS ON THE GERMAN PEOPLE WHICH ENABLE THEM IN COMPETITION WITH US TO PRODUCE GOODS OF EVERY KIND CHEAPER THAN WE CAN. THUS WE COMPEL OUR TRADE RIVALS TO LIVE UNDER CONDITIONS WHICH ENABLE THEM TO UNDERSELL US IN EVERY FOREIGN MARKET.

We shall receive, it is true, our share of the German indemnity, which at its maximum would be about £80,000,000 a year, but the conditions which enable Germany to pay us this amount will enable her to imperil our export trade, which, including invisible exports, is now well over £1,100,000,000 a year."

Means of recovering indemnity from Germany.

"Germany ought to pay to the utmost limit of her power to repair the damage she did in the war.

"Interest on the prewar debts due to the creditor countries was paid by the export of raw materials and food. Nothing stands in the way of Germany being required to send to this country and France and the rest of the allied countries, to each according to its requirements, articles such as coal, timber, potash, sugar, all of which Germany produces in great quantities.

It would mean undoubtedly that much German capital and labour would have to be withdrawn from manufacture and devoted to the pro-

duction of the materials required by the countries to which she is indebted, but this is a penalty which German industry might very properly be called upon to pay.

GERMANY'S MANUFACTURES AND SHIPPING, SO FAR FROM BEING BENEFITED, WOULD BE AT THIS DISADVANTAGE IN COMPETITION WITH OURS - THAT HER ABILITY TO DEVOTE CAPITAL AND LABOUR TO THEM WOULD BE LARGELY RESTRICTED.

The Reparations Commission have power to call for payment by Germany of any kind of goods to the value of £100,000,000 a year. I propose that this power should be exercised, and that Germany should not be left at liberty to provide this sum by selling all over the world such goods as she pleases."

711.AN.BC

ALFRED NUTTING,
Clerk, American Consulate General,
London, England.

by unscrupulous speculation.

In 1920 this organization bought 24 milliard paper marks' worth of foreign money, that is, about 2 milliards a month, equivalent to 170 to 180 million gold marks' worth. These 24 milliards were used for account of reparations payments, Clearing Offices, International Postal, Telegraph and Railway settlements, essential food supplies, and minor governmental commitments. The German government hopes by means of a prudent policy to procure the necessary foreign money to pay at the dates fixed, but it must do this without entirely ruining the rate of the mark. The following table shows the purchases in terms of paper marks, for 1920 and up to June 17, 1921:

<u>1920</u>		<u>1921</u>	
January	838,751,000	January	2,439,310,000
February	1,919,516,000	February	1,625,134,000
March	2,954,628,000	March	2,368,386,000
April	2,129,001,000	April	2,499,717,000
May	1,644,841,000	May	3,854,670,000
June	1,448,445,000	June 1 to 17,	<u>2,104,040,000</u>
July	1,154,386,000		
August	1,075,295,000		14,891,257,000
September	2,353,728,000		
October	2,717,262,000		
November	3,164,807,000		
December	<u>1,612,057,000</u>		
	23,012,717,000		

MEMORANDUM ON THE GERMAN SITUATION

I - Schedule of Reparations Payments

For 1921-22 the schedule calls for four installments of 500,000,000 gold marks each and two quarterly installments of the variable annuity due November 15, 1921 and February 15, 1922, provisionally estimated at 325,000,000 gold marks each. The obligation to April 1922 is, therefore 2,650,000,000 gold marks. This is to be covered by 1,000,000,000 gold marks payable in accordance with the regular quarterly schedule and 1,200,000,000 gold marks deliveries in kind, and 150,000,000 gold marks payable under the Recovery Act. This leaves a balance of 300,000,000 gold marks required secured by resources including the proceeds of all German maritime and land customs dues, and in particular the proceeds of all import and export duties, the proceeds of a levy of 25 per cent. on the value of all exports from Germany (with certain exceptions), and the proceeds of any direct or indirect taxes as may be proposed by the German government and accepted by the Committee of Guarantees in addition to the specified taxes. The Committee of Guarantees decided that the payment of customs should be effective from November 15 and the payment of the 25 per cent. export levy should be effective from December 15, and should yield 300,000,000 gold marks.

For future years the Committee of Guarantees has stated that it will not be possible to estimate Germany's obligations, but provisionally assumed the annual sum as 3,300,000,000 gold marks, this to be covered by 1,200,000,000 gold marks deliveries in kind, 1,250,000,000 Reparation Recovery Act receipts and 25 per cent. export levy, and 200,000,000 customs receipts, a total of 2,650,000,000 leaving a deficit of 650,000,000 gold marks to be covered by additional assigned revenues. Proposed tax revenues as made by the German government and accepted by the committee yield 1,300,000,000 or double the amount required. The Committee has stated it will accept 50 per

cent. of the yield of these taxes reserving the right to require a larger amount if necessary to meet any deficit in Reparation Payments. These payments include only the actual reparations and do not include the cost of the armies of occupation estimated at ^{between 240 and 500 million} 245,000,000 gold marks per year and clearing office commitments estimated at 500,000,000 gold marks within next two years.

II - German Exchange Situation.

In order to provide the exchange for the reparations payments the German government has made use of the Central Exchange Office, a limited liability corporation organized in 1914, guaranteed by the commonwealth, which works very closely with the large banks through the medium of the Reichsbank buying foreign money with paper marks. Since this foreign currency is the normal produce of commerce it is to the advantage of the banks to sell the surplus currency at their disposal.

The government has attempted to prevent the banks from buying such currency and reselling it as a speculation and has also tried to force the people to declare their holdings of such money, but the purchases of exchange by the Central Bureau has had a disturbing effect on all the exchange markets mainly because of the active and powerful speculation in Germany and other countries. Speculators buy foreign exchange, preferably U. S. dollars, with Reichsmarks knowing that the German government must in turn buy this exchange from them in order to be able to meet its reparations payments. The continuous rise of foreign exchange in Germany as compared with the Reichsmark has induced everybody to hold back in offering foreign exchange, thereby practically closing the exchange market to the German government. According to Herr Bergman, Financial Representative of the German Government in Paris, the German government is in a "corner" formed



ASSISTANT SECRETARY

TREASURY DEPARTMENT

Washington,

AA
JUN 20 1921

June 17, 1921.

Dear Ben:

6/16/21
Herewith is a copy of cablegram outlining the provisional plan of organization of the Committee on Guarantees, formed in connection with the carrying out of Germany's agreement to pay reparations. There is a good deal of information in this which is not of importance but I thought you might like to have the whole thing as a record in case of matters turning up in the future regarding the activities of this Committee. Please treat as confidential.

Very truly yours,

Honorable Benjamin Strong,
Governor of the Federal Reserve Bank,
New York, N. Y.

Enclosure.

1362-1

RECEIVED
GOVERNOR'S SECY

35 1921



ASSISTANT SECRETARY OF THE TREASURY
WASHINGTON

797-1
H6

June 17, 1921.

My dear Governor:

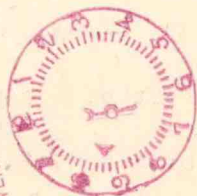
I have received and read with great interest your further letter of June 13, 1921, in regard to the reparation payments, and have transmitted a copy, together with a copy of your letter of May 31st, to the State Department for its information and attention. I am glad that you took this occasion to outline your suggestions and to emphasize the important bearing which the need of the Allied Governments for dollars has on the situation. The special attention of the State Department has been called to the importance of prompt advice from Mr. Boyden whenever there are any developments in connection with the reparation payments. I shall, of course, arrange to send you copies of any further cablegrams and other advices in the matter as soon as they are received by the Treasury.

Very truly yours,

Benjamin Strong, Esq.,
Governor, Federal Reserve Bank,
New York, N. Y.

J. D. G. J. J. J.

RECEIVED
GOVERNOR'S SECY.



JUN 18 1921



ASSISTANT SECRETARY OF THE TREASURY
WASHINGTON

June 17, 1921.

CONFIDENTIAL

AA
JUN 20 1921

My dear Governor:

In connection with my earlier letter of this date about reparation payments, I enclose for your confidential information a copy of a paraphrase of a cablegram transmitting a message from the State Department to Mr. Boyden, dated May 24, 1921, as to a proposition to lend money to Germany to be spent in the purchase of goods in the United States. The Treasury has just received copies of this message and it occurred to me it might interest you.

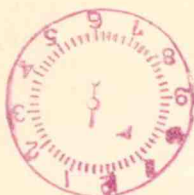
Very truly yours,

S. D. Gilbert

Benjamin Strong, Esq.,
Governor, Federal Reserve Bank,
New York, N. Y.

1 enclosure.

JUN 20 1921



RECEIVED
GOVERNOR'S SEC'Y.

UNITED STATES UNOFFICIAL DELEGATION

REPARATION COMMISSION.

462.00R29/837

7, rue de Tilsitt,

Paris, France,

17th June, 1921.

My dear Mr. Secretary:

I beg to acknowledge Assistant Secretary Fletcher's letter of June 3d with enclosures.

I called the attention of the Department to this matter because it was obvious that purchase by or for the Reparation Commission of dollars in considerable amounts would add a disturbing factor of importance to the exchange situation. This actually proved to be the case and the Commission received protests from bankers and from governments. The difficulty was not confined to the original purchases, because it will later be necessary to bring the money back to Europe, which involves the same sort of disturbance, reversed.

The result has been an effort by the Commission to protect itself against the risk involved in holding payments made in various currencies other than the dollar, and for the present at least this has been accomplished. The arrangement involves the assumption of the risk by various governments interested in reparations and in view of their assumption of the risk, the Reparation Commission gives them the profit, if any.

The arrangement is provisional and may be terminated by each government or by the Commission at any time. No government has yet been willing to assume the risk beyond a definite amount, so that if the payments by Germany should reach proportions now unexpected, the scope of the arrangement would have to be enlarged or else the Commission would revert again to the purchase of dollars.

I enclose a copy of the arrangement which is now in force with Great Britain, France and Belgium. It is possible that Italy may make the same arrangement.

The deposits still remain deposits to the credit of the Reparation Commission. England confines its guarantee to sterling; France extends its guarantee beyond francs to currencies of certain other countries. There is a definite advantage

to the governments in making available to the banks, which are connected with governmental operations, larger deposits than would otherwise be available, and France at least sees an advantage in having part of these deposits available in currencies of countries other than France.

As the proceedings of the Commission are confidential, the document enclosed is also confidential and it may perhaps be undesirable that the details of these governmental arrangements should go beyond the Department itself.

Yours very truly,

(Signed) R. W. Boyden.

The Secretary of State,
State Department,
Washington, D. C.

16th June, 1921.

DRAFT DECISION.

1. In order to avoid disturbance in the dollar exchange in consequence of the purchase by Germany of large quantities of dollars to meet the payments due under the Schedule of Payments and pending the adoption by the Conference of the Allied Governments, which is to meet shortly, of definite recommendations concerning the definite distribution of reparation funds, it is decided to adopt for the month of June 1921 the arrangement described below, on the understanding that the Commission reserves the right to have recourse to any other arrangement should difficulties arise in the execution of that tentatively adopted for this month.

2. The Commission takes note of the agreement of the Governments of Great Britain, France and Belgium to assume the risk of losses and gains on exchange resulting from payments made by Germany in certain European currencies and up to certain definite limits. Any loss or gain on exchange resulting from these operations will be carried to the debit, or the credit (as the case may be), of the Power guaranteeing the currency, in the books of the Reparation Commission.

Great Britain agrees to guarantee sterling to an
amount of £ 10 million.

Belgium " " " Belgian francs to an
amount equivalent to 25 million g.m.

France

France agrees to guarantee French francs, £ sterling and other currencies within the limits defined below to an amount equivalent to 100 million gold marks.

The limits to which France is prepared to guarantee currencies other than French francs and pounds sterling are -

Swiss francs	35 million	
Dutch florins	30	"
Norwegian, Swedish or Danish crowns.	30	"
Pesetas	15	"

France desires, with regard to the currencies guaranteed by her, that payments should be made by preference over all other currencies in Swiss francs up to a total of 20 million Swiss francs.

The Commission decided to accept payments made by Germany in the currencies indicated above provided that they fall within the limits stated.

The Governments of Great Britain, France and Belgium will have a prior claim to take the risk on exchange resulting from payments made by Germany in their respective national currencies up to a limit of 10 million pounds sterling for Great Britain, 100 million gold marks in French francs for France, 25 million gold marks in Belgian francs for Belgium. The payments thus made will be deposited to the account of the Reparation Commission in the national bank of the guaranteeing Power if these payments are made in the currency of that Power. If they

are

are made in another money, they will be deposited either to the account of the national bank of the Power concerned in a bank chosen by it and situated on the territory of the Power in whose currency the payment has been made, the state national bank remaining responsible vis a vis the Reparation Commission - or directly to the account of the Reparation Commission in a bank chosen by the Commission and situated on the territory of the Power in whose currency the payment has been made.

Each of the guaranteeing Governments will receive from the Reparation Commission full authority to convert at any time into other European currencies the sums in connection with which they assumed the risk of exchange. The Governments concerned will notify the Reparation Commission without delay of any such operations as it (sic) may undertake. No conversion into dollars will be made except after an agreement between the various guaranteeing Powers .

In order to calculate the credit in gold marks to be given to Germany for payments in European currencies effected in virtue of the present arrangement, the Commission decides to adopt not the rate of exchange of the day of payment but the average of the rates of the day of payment and of the two preceding days.

The

The rates adopted as the basis of conversion will be the following -

For pounds sterling - the average of exchange indicated and certified by the Bank of England of the pound to the dollar on the London Market.

For French francs - the official rate of exchange of the French franc to the dollar in Paris.

For Belgian francs - the official rate of exchange of the Belgian franc to the dollar in Brussels.

For payment in Swiss francs, Dutch florins, Scandinavian crowns, and pesetas - the gold mark credit will be calculated in the following manner -

The value of these currencies will be calculated in French francs at the average of the rates of exchange prevailing between them and the franc on the Paris Bourse on the day of payment and on the two preceding days. The franc value thus obtained will be translated into dollars at the average rate of exchange of the franc to the dollar on the Paris Bourse for the same days.

3. The Commission reserves the right of the Italian Government to make a proposal analogous to those which have been made by the Governments of Great Britain, France and Belgium.

June 20, 1921.

Dear Eliot:

6/6/21
I am pleased to have the copy of cablegram, enclosed in your letter of June 17, outlining the provisional plan of organization of the Committee on Guarantees, formed in connection with the carrying out of Germany's agreement to pay reparations. I shall appreciate your keeping me advised as to these matters, and shall treat the information strictly confidential.

With many thanks,

Yours very truly,

Honorable Eliot Wadsworth,
Assistant Secretary of the Treasury,
Treasury Department,
Washington, D. C.

GB:MM

June 20, 1921.

Dear Eliot:

6/6/21
I am pleased to have the copy of cablegram, enclosed in your letter of June 17, outlining the provisional plan of organization of the Committee on Guarantees, formed in connection with the carrying out of Germany's agreement to pay reparations. I shall appreciate your keeping me advised as to these matters, and shall treat the information strictly confidential.

With many thanks,

Yours very truly,

Honorable Eliot Wadsworth,
Assistant Secretary of the Treasury,
Treasury Department,
Washington, D. C.

GB:MM

PERSONAL & CONFIDENTIAL

June 20, 1921.

Dear Eliot:

Formal acknowledgment of yours of June 17 has been forwarded. This is just a personal line to suggest the wisdom of having Boyden and Logan impressed with the need of transmitting information regarding possible pending decisions by both the Commission and the Committee in all matters relating to Germany's borrowings abroad, and Germany's reparation payments, before those decisions are made, or policies are adopted by either body.

I suppose it is superfluous to emphasize this, but whenever it is possible for them to convey such information in time to have it studied over here before action is taken, we will certainly find it an advantage to us to have it in advance.

Yours very truly,

Honorable Eliot Wadsworth,
Department of State,
Washington, D. C.

BS:MM

June 20, 1921.

My dear Mr. Gilbert:

I am grateful to you for copy of paraphrase of a cablegram transmitting a message from the State Department to Mr. Boyden, dated May 24, which you so kindly enclosed in your letter of June 17.

Yours very truly,

Honorable S. P. Gilbert, Jr.,
Assistant Secretary of the Treasury,
Treasury Department,
Washington, D. C.

GB:MM

June 20, 1921.

My dear Mr. Gilbert:

I thank you for your note of the 17th, enclosing a copy of a paraphrase of a cablegram transmitted by the Department of State to Mr. Boyden, dated May 24, which arrived during my absence, and has been acknowledged by my secretary.

I can hardly express an opinion in regard to the purpose of the communication to Mr. Boyden without some further knowledge of the amount and terms of the proposed loan. Possibly you will be able to keep me further informed.

The comment might be made, however, that certain of the Allied governments may not view with favor a proposal contemplating priorities of this character. At any rate, so long as the first reparation payment stipulated to be made by Germany before September first is still most uncertain as to conclusion.

Yours very truly,

Benj. Strong,
Governor.

Honorable S. P. Gilbert, Jr.,
Assistant Secretary of the Treasury,
Treasury Department,
Washington, D. C.

BS:MM



ASSISTANT SECRETARY OF THE TREASURY
WASHINGTON

2747
June 22, 1921.

My dear Governor:

I received your letter of June 20, 1921, with regard to the cablegram from the Department of State to Mr. Boyden as to the proposition made by certain New York bankers for a loan to the German Government, with certain priorities over reparations. If I receive any further information in the matter, I shall be glad to advise you.

Very truly yours,

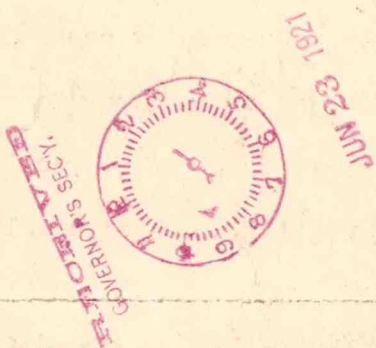
S. D. Gilbert

GENERAL FILES

JUN 27 1921

FEDERAL RESERVE BANK
OF NEW YORK

Benjamin Strong, Esq.,
Governor, Federal Reserve Bank,
New York, N. Y.





ASSISTANT SECRETARY OF THE TREASURY
WASHINGTON

June 30, 1921.

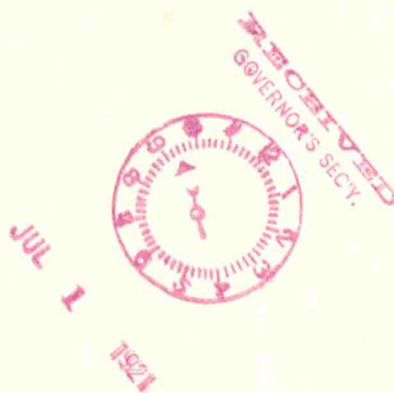
Dear Ben:

6/20/21
You wrote me a little while ago about the desirability of having prompt information as to decisions of the Reparation Commission about payments and other matters. I took this up with the State Department and now have a letter saying that they have cabled Boyden asking that such information be forwarded.

Always yours,

Honorable Benjamin Strong,
Federal Reserve Bank,
New York, N. Y.

READ AND NOTED,
B. S.



PT

Green

Paris

Dated July 6th, 1921

Recd. 7th, 525pm.

Secretary of State,

Washington, D. C.

Section one.

431, July 6th, 9 pm.

B-511. Committee guaranteed after two weeks sittings and hearings Germans Berlin returns of via Coblenz June 29th, purpose of meeting arrange practical details of schedule of payments (reparation commission annex 908). Discussion was frank, good subject both sides. Following brief Logan-Hess report.

One. Germans Berlin wanted to discuss new index as suggested sub-heading B, paragraph two, article four, schedule. Payments committee refused stating reparation commission solely competent. Word equivalent in sub-heading B unfortunate because necessarily makes new index dependent on old index. Real purpose index is to measure Germany's economic prosperity. If any satisfactory measure ever discovered this language must be changed before can be adopted but fact that present index naturally tends restrict German exports so hampering her economic prosperity generally recognized sub-paragraph A. Germans resistance to definition of word exports sub-heading A, article four schedule claiming fallacy using (total export figure) as index prosperity or as basis of annual payments, pointed out that index practically results in actual 26 per cent tax on each class exports with the result exports which cannot bear burden will automatically cease to disadvantage not only Germany but also countries from

from which latter buys and to which Germany sells. They argued ability exports bear 26 per cent not determinable by viewing industry collectively or averaging wide margin industries with narrow margin finishing and commission bold attempt. Committee as a result of this discussion referred to Reparation Commission following questions relating to valuation of exports for the purpose of applying 26 per cent index: (A), whether value imported raw material should be deducted from export value manufactured product; (B), should value goods manufactured outside imported by Germany merely for the purpose of resale outside Germany be included in exports; (C) same question goods foreign origin subject only in Germany to commission operations; (D), should value reparation deliveries like coal be included in exports; (E), various articles are both imported and exported by Germany, for instance coal, wheat. Should gross exports be reckoned or merely excess exports over imports these articles.

Two. German proposal for payments assumed German exports 1920 at five milliard gold marks, thus total annual obligation three milliard three hundred million gold marks. Also assumed value deliveries in kind. (A), one milliard three hundred and fifty million. (B), also two hundred sixty million allied collections by reparation recovery acts assumed follow British example reducing collections to 26 per cent. (C), foregoing leaves one milliard six hundred ninety million gold marks to be obtained other source for which they offered committee guarantees receipts following revenues totalling 25 milliard paper marks (figures revenues below expressed paper marks), viz, tax on capital revenue one milliard four hundred million, tax on sugar one milliard two hundred million, brandy monopoly one milliard five hundred million, tax on tobacco two milliard seven

seven hundred million, tax on coal four milliard five hundred million, turn over tax (umsatz Steuer) thirteen milliard seven hundred million. Sub-paragraph (A). Foregoing revenues represent important increase present receipts same sources. In certain cases laws increasing taxes drafted and before Reichstag, in other cases laws not drafted. Germans calculations based on exchange rate approximately 15 paper marks equaling one gold mark. Sub paragraph (B). As method obtaining foreign exchange Germans proposed continuing present method foreign exchange purchases through central exchange office (Devisen Zuteilungen). Latter office operates as semi-governmental agency purchasing quietly through banks and bourses. This office last year purchased over 23 milliard paper marks foreign exchange. During January-May 1921 foreign exchange purchases approximated 13 milliard. This exchange used account reparations clearing offices, international postal telegraph and railway settlements essential food supplies and minor governmental commitments. Food control to be released shortly, purchases thereafter: open market.

Three. View obvious exchange uncertainties committee limits delinquent on Germany to gold mark values.

Four. Committee after hearings communicated Germans June 28th, its decisions in (?) notes briefed as follows: sub-paragraph A, note one "general principles". While appreciating arguments proposing substitution other resources than those specified paragraphs A and B article seven schedule committee cannot present stage agree so must base excepted schedule primarily on resources specified. Consequently alternative revenues proposed only require consideration so far as specified

specified resources not sufficient to guarantee full obligation. Note deals separately with; (A), obligations of Germany for year 1921-1922; (B), obligations of Germany future years. Distinction due fact first installment variable annuity due only November 15th. Committee provisionally willing to accept German estimate 1920 exports value five milliard gold marks. Committee provisionally admits value deliveries kind current year one milliard two hundred million gold marks. As reparation recovery act present only in force United Kingdom committee provisionally admits only 150 million gold marks. Provisionally admits customs yield two hundred million gold marks. Finally, 25 per cent export levy produces one milliard two hundred fifty million gold marks per annum less recovery acts receipts or two hundred seventy-five million gold marks per quarter which figure provisionally admitted sub-paragraph B. For year 1921-1922 obligations are: (A), four installments five hundred million gold marks, and; (B), two quarterly installments does not affect annuity due 15th, November and 15th February next provisionally estimated on above basis at 325 million gold marks each. Obligation to 30th April 1922 therefore two milliards 650 million gold marks. To be covered by (A) one milliard gold marks article five schedule, (B) one milliard 200 million gold marks deliveries kind, (C), 150 million gold marks recovery act. This leaves balances 300 million gold marks required secured by specified article seven schedule.

Committee accordingly considers payment customs effective from 15th November next *and over levy of 25% which is not effective from 15 Dec. next* will yield 300,000,000 and requests Germans make necessary arrangements. Provided above estimates realized not necessary resort

resort year 1921-1922 to other resources those specified article seven schedule. Sub-paragraph C. For future years impossible exactly estimate Germany's obligations but provisionally assumed as 3,300,000,000 gold marks. To be covered by (A), deliveries kind 1,200,000,000; (B), reparation recovery act receipts and 25 per cent export levy 1,250,000,000; (C), customs 200,000,000, total 2,650,000,000 leaving deficit 650,000,000 gold marks. Sub-paragraph (D). Foregoing deficit must be covered by additional assigned revenues. Proposed tax revenues as revised by committee yield 1,300,000,000 gold marks or double amount required. Committee willing to accept 50 per cent yield provided 650,000,000 gold marks actually realized reserving right require large percentage if necessary meet any deficit schedule payments. Therefore starting first May 1922 committee will receive (A) customs; (B) 25 per cent levy exports and; (C) in addition such percentage as necessary of assigned revenues proposed and accepted by committee. Sub-paragraph (E). Committee reserves rights under article 248 treaty to protect service bonds in all circumstances. Sub-paragraph (F). Note two "interpretation of exports and change index", see paragraph one and sub-paragraph (A), this cable. Sub-paragraph (G). Note 300 () levy on exports. (Ranking?) Germans presented economic and political difficulties resulting direct export levy 25 per cent paragraph B, article seven schedule. States levy schedule payments not any sense tax method producing necessary foreign values. Committee willing to accept alternative resources if assuring required foreign values but no scheme yet advanced fulfills this condition. Under the circumstances cannot renounce export levy and requests Germans prepare measures
necessary

necessary to make levy. Opinion committee however agreed actual system deferred subject to following reserves and guarantees viz: for each quarterly payment under schedule committee will determine sum representing 25 per cent value exports during previous quarter with deductions recovery act collectedly same period. Germans to pay this sum in advance in three qual installments, viz, the first two months before, the second one month before, and balance on quarterly date fixed by shedule. As regards current year committee assumes value deliveries kind effected since May first last sufficient cover payments due February 15 next so above arrangement will apply to payment due February 15 and first installment paid on December 15th. Committee reserves right to put direct levy in operation any moment. Foregoing does not free Germans from obligation notifying committee under paragraph eight article seven any proposed action diminishing receipts 25 per cent levy". End Section one.

WHITEHOUSE

WSB



THE UNDERSECRETARY OF THE TREASURY
WASHINGTON

ACKNOWLEDGED

JUL 15 1921

July 11, 1921.

B. S.

ACKNOWLEDGED

JUL 13 1921

B. S.

My dear Governor:

I enclose for your confidential information a copy of a cablegram dated July 6, 1921, which has been received from the American Embassy at Paris, with further reference to the German reparation payments.

Very truly yours,

S. D. Gilbert

Benjamin Strong, Esq.,
Governor, Federal Reserve Bank,
New York, N. Y.

1 enclosure.

JUL 11 1921

RECEIVED
GOVERNOR'S SECY.
JUL 11 1921

Handwritten signature and initials

RECEIVED
GOVERNOR'S SECY.



JUL 13 1921

C O P Y

DEPARTMENT OF STATE

Washington

July 11, 1921.

In reply refer to
TA -462.OOR29/637

The Honorable

The Secretary of the Treasury.

Sir:

Reference is made to your letter of May 24, 1921, regarding the interest of the Treasury and of the Federal Reserve Bank of New York in reparation payments made or to be made by Germany.

A copy of your letter was transmitted to Mr. Boyden, the Unofficial American Delegate on the Reparation Commission, and he has now transmitted to the Department further details in regard to the arrangements made by the Reparation Commission to protect itself against exchange risks. A copy of Mr. Boyden's letter and enclosure are forwarded herewith. You will note that the enclosure is transmitted in strict confidence.

I have the honor to be, Sir,

Your obedient servant,

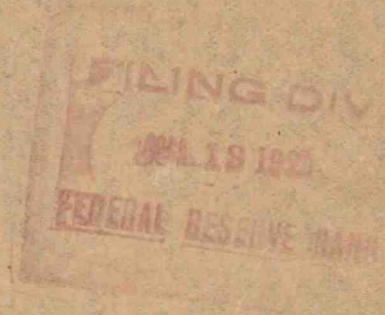
For the Secretary of State:

(SGD.) F. M. DEARING,
Assistant Secretary.

Enclosure.

Copy of letter of
June 17, with enclosure.

July 13, 1921.



Dear Mr. Gilbert:

I thank you for your letter of July 11, enclosing copy of cablegram, dated July 6, 1921, received from the American Embassy at Paris, in reference to the German reparation payments, which you forwarded to us for our confidential information.

Yours very truly,

Benj. Strong,
Governor.

Honorable S. P. Gilbert, Jr.,
Undersecretary of the Treasury,
Treasury Department,
Washington, D. C.

GB:MM

CONFIDENTIAL

July 15, 1921.

Dear Mr. Gilbert:

Referring to your favor of July 11, enclosing copy of cablegram dated July 8, on the subject of German reparation payments. It contains so many references to previous communications and to documents to which we have not access, that much of it I cannot understand.

It appears that the proposals now under consideration contemplate three general methods of payments:

(1) Deliveries in kind.

(2) Payments which will be made abroad to the Allies under the head of "reparation recoveries."

(3) Payments which will originally be assembled by Germany in marks, and which must be converted into foreign currencies either by Germany before payment, or by the Allied governments after receipt. It is with this fund that we are more concerned than any other, as the process of conversion is what disturbs the exchanges. Do you feel that we are adequately advised by experts on the ground on this particular phase of the matter, so that unnecessary exchange disturbances, detrimental to the interests of this country, may be avoided?

On the whole, and in the long run, I do not think it will be to our ultimate disadvantage to have these payments "banked" (so to speak,) in this country. It is during the process of accumulation of dollars that we suffer the "growing pains." Once the dollars are accumulated, however, they must be employed in this country by the Allied governments, or by those to whom they are transferred by the Allied governments in the purchases of goods, or in the payment

#2
July 15, 1921

of debts. The probable ultimate effect, under existing conditions, will be to facilitate our exports, or where debts are owing in this country to facilitate their collection.

It seems to me that our policy should be directed towards regulating the methods employed so that a minimum of fluctuation in exchange will result, recognizing all the time that the intermediate exchange disturbances, while a disadvantage, will ultimately lead to our own gain.

If these matters are reaching a point of decision, I further take the liberty of suggesting the advisability of a conference of well posted foreign exchange men, who might indicate a course of procedure as a guide to the Treasury in keeping track of this affair.

Yours very truly,

Benj. Strong,
Governor.

Honorable S. P. Gilbert, Jr.,
Undersecretary of the Treasury,
Treasury Department,
Washington, D. C.

BS:MM

C O P Y.

VHL

Green
Paris
Dated July 16, 1921
Recd. 9:15 P.M.

Secretary of State,

Washington, D. C.

449, July 16, 5 P.M.

B-516. Bergman today in a conversation with Logan regarding German payments stated:

First. Germany paid to date three hundred million account first milliard leaving seven hundred million gold marks payable before August 31st. This balance partly already covered but Germany still short four to five hundred million gold marks foreign exchange. This fact common knowledge results in wholesale selling of paper marks by speculators who buy foreign exchange, preferable dollars.

Second. There is a real explanation of the present rise in dollar exchange as compared with all foreign exchange though in the beginning this rise probably attributable to dollar purchases under instructions Reparation Commission in connection with first payments. Exchange rates other European countries follow movement of paper mark relation dollar. From May to middle July cable rate pound sterling fell from \$4.00 to 3.65, guilder fell from .35 to about .32. When mark rose lately New York from 1.28 to 1.35 corresponding improvement reflected other European rates; no other explanation is possible except speculation.

Third. This situation will be aggravated, perhaps result in crisis affecting all European exchanges unless remedied. Suggests as remedy extension

of time, say three months for payment. Ordinarily German Government easily secures 150 gold marks monthly therefore extension would permit purchases, but more important still would hamper speculators who now have absolute certainty to work on; thinks therefore effect of formal extension would be to permit Germany to fulfill obligation by August 31st without taking advantage of extension. German Government for political reasons cannot request extension but hopes Reparation Commission may in interest not only Germany but in general interest suggest foregoing remedy".

Bergman's foregoing views as to result of extension probably too optimistic. Believe British, French, and Belgian treasuries considering proposal and that question will probably come before Commission shortly. Suggest our Treasury and Federal Reserve be immediately and confidentially advised of situation. Boyden.

HERRICK.

HS

C797

UNITED STATES UNOFFICIAL DELEGATION
REPARATION COMMISSION

7 rue de Tilsitt

Paris, France,
July 18, 1921.

Received

Hon. Benjamin Strong,
Governor, Federal Reserve Bank,
New York City, U. S. A.

My dear Ben:

I have gathered from seeing copies of your recent letters to the Treasury Department that you are quite interested in the German exchange situation. Boyden has asked me to forward you some additional data on this subject, which I do with great pleasure.

7/16/21

Exhibit A

LOOSE IN FILE

In the previous letter, in which I sent you a copy of our cable report to Washington, the German exchange situation was fairly well covered. However, I am enclosing herewith copy of a report from the General Secretariat of the Committee of Guarantees on the account given by Mr. Ritter of the German Government, on June 18, of the functioning of the Devisenbeschaffungsstelle. This latter office was referred to in our cable as the Central Exchange Office.

LOOSE IN FILE

As Exhibit B, I enclose a list, showing the amount of paper marks used by the Central Office in the purchase of foreign exchange during the years 1920 and 1921 from January to the seventeenth of June.

LOOSE IN FILE

Exhibit C will show the detailed transactions of this same office, from January to May, 1921.

LOOSE IN FILE

As Exhibit D, I enclose copy of a memorandum, which was prepared for me by Herr Bergman, following a conversation I had with him on July fifteenth, relative to the exchange situation as he sees it. This memorandum served as a basis for the dispatch we sent to the State Department July 16, 1921, a copy of which you probably now have.

Bergman is a confrere of Melchoir Warburg et al ^{of} Hamburg. He is the Financial Representative of the German Government in Paris, and it is thru him that the Reparation Commission maintains general liaison with the German Government. I am inclined to think that Bergman's views as to the immediate situation are somewhat pessimistic. I am, also, inclined to think that the results of his proposed extension of time are somewhat optimistic. However, it is interesting.

I am sending the foregoing letter to you by safe hands, and I know you will appreciate the confidential character of the information.

Faithfully yours,

Jan C. Sawyer

JAL/SR

TO Jnr Sherry 505 797
Washington, D. C., July 20, 1921.

Dear Mr. Wadsworth:

Replying to your note of July 18, enclosing a copy of Ambassador Herrick's cable of July 16, B-516, the following comments occur to me:

First: It is, I believe, common knowledge that Germany is still short a very large but unknown amount in balances available for reparation payments. It puts the exchange market and exchange dealers generally in the position of being able to trade against a very large short account in exchange which must be covered and does create a somewhat hazardous situation in the exchange market.

Second: Any considerable movement in the major exchanges (that is, in the rate for sterling in New York or dollars in London) will be reflected under present conditions to a more or less corresponding degree in all other exchanges by reason of the arbitrage.

Third: As to dollars already accumulated and those which may be hereafter accumulated in an orderly fashion without ^{un}any due disturbance to rates, there will be an ultimate advantage to this country because these credits once established here must ultimately be employed in this country, either in paying debts to our Government or our citizens, or in the purchase of goods in this country. The disturbance to the exchange market resulting from the use of these dollars by the foreign Governments which control them will be much less and much easier to control than will the disturbance occasioned by the enforced accumulation of dollars by Germany at a rate beyond what the normal development of exchange permits.

Fourth: Avoidance of extreme and violent fluctuation in exchange is the object to be attained by regulation. Regulation necessarily implies

that accumulation shall not be attempted by Germany at a rate greater than exchange would normally be created by trade or than can be created by the floating of loans and the arrangement of similar credits in ^{the} currencies which Germany seeks to accumulate.

My personal belief is that Germany cannot and should not be allowed to make payments at a rate greater than that which is possible under existing world trade conditions and credit conditions. This means slowing down the rate of reparation payments and probably deferring to some extent the conclusion of the immediate payment now pending.

There is some force in the suggestion that, if an announcement of an extension is made, the extension will be less needed than if no such announcement is made.

The whole subject of the reparation payment opens up ^a ~~the~~ vista of speculation as to possible consequences, which I believe, in the interest of our own commerce, should be studied and understood and, when understood, effort should be made to influence a reasonable control of the operation.

Yours very truly,

Honorable Eliot Wadsworth,
Assistant Secretary of the Treasury,
Washington, D. C.



THE UNDERSECRETARY OF THE TREASURY
WASHINGTON

JUL 21 1921

July 20, 1921.

CONFIDENTIAL.

My dear Governor:

In connection with my previous correspondence as to the reparation payments made or to be made by Germany, I enclose for your confidential information a copy of a letter dated July 11, 1921, from the Assistant Secretary of State, together with copies of the enclosed report under date of June 17th from Mr. Boyden, and the draft decision of the Reparation Commission, dated June 16th. The Treasury will be glad to have any comments which you may wish to offer.

Very truly yours,

S. T. Gilluly

Benjamin Strong, Esq.,
Governor, Federal Reserve Bank,
New York, N. Y.

Enclosures.



RECEIVED
GOVERNOR'S SECY.



JUL 22

Handwritten signature or initials, possibly "Kendall".

797
July 21, 1921.

CONFIDENTIAL

Dear Mr. Gilbert:

Thank you for your confidential note of July 20, enclosing certain correspondence on the subject of German reparation payments. I had opportunity to read this in Washington yesterday, and my letter addressed to Assistant Secretary Wadsworth, of which I handed you a copy, contains comments which it seems to me are justified, both in regard to this correspondence and Ambassador Herrick's cable No. B-516, on the same subject, which was sent to me by Assistant Secretary Wadsworth.

Yours very truly,

Benj. Strong,
Governor.

Honorable S. P. Gilbert, Jr.,
Undersecretary of the Treasury,
Treasury Department,
Washington, D. C.

BS:MM



THE UNDERSECRETARY OF THE TREASURY
WASHINGTON

CONFIDENTIAL.

July 23, 1921.

ACKNOWLEDGED
JUL 23 1921
B. S.

My dear Governor:

In connection with our previous correspondence as to the German reparation payments, I enclose herewith for your confidential information copies of Annexes No. 973 and 974 a, b of the Reparation Commission, with respect to the currencies in which the German Government is to make reparation payments.

Very truly yours,

S. D. Gilbert

Benjamin Strong, Esq.,
Governor, Federal Reserve Bank,
New York, N. Y.

Enclosures.

COPY

c797

JEM

GREEN

Paris.

Dated July 25, 1921.

Rec'd 7:15 pm.

Secretary of State,

Washington D.C.

458. July 25, 9 pm.

B-518. Germany has paid to date on account one milliard gold marks Article five schedule (?) 275,376,690 gold marks. German Government has announced to Commission intention pay this week in currencies now held about thirty million dollars additional approximately as follows: about five million ⁱⁿ dollars, large sum sterling, French francs, Belgian francs, lire, amounts various currencies not yet in readiness, balance in actual gold not to exceed twelve million gold marks. Germany further proposes to pay similar amount first week August. Boyden.

HERRICK.

OX.

MAILING DIV.
AUG 2 1921
FEDERAL RESERVE BANK

Yours very truly,

Honorable S. P. Gilbert, Jr.,
Undersecretary of the Treasury,
Treasury Department,
Washington, D. C.

Digitized for FRASER
<http://fraser.stlouisfed.org/>
 Federal Reserve Bank of St. Louis

cra7

JAMES A. LOGAN Jr.

Paris, 7 rue de Tilsitt.
26 July, 1921.

PERSONAL

My dear Ben,

I am enclosing herewith, for your confidential information, the following documents, viz:

- 1.- "Memorandum from the Delegation of the Committee of Guarantees at Berlin", dated July 4, 1921. This memorandum encloses copy of a German Note prepared by the German Ministry of Finance on the German Budget for the year 1921 etc. The covering memorandum is explanatory of certain parts of the German Note and was prepared by the representatives of the Committee of Guarantees at Berlin. Doc. 12 LOOSE IN FILE
- 2.- "Financial program of the German Government", dated July 15, 1921. This paper has been prepared by the representatives of the Committee of Guarantees at Berlin and should be read in connection with copy of our cable to the State Department, B-511, dated July 6, 1921, which I forwarded to you in my letter of July 5, 1921. Doc. 20
- 3.- "Balance Sheets of the "D" Banks for 1920". This paper has been prepared by the representatives of the Committee of Guarantees at Berlin. Doc. 10 - 87/21
- 4.- "Draft report from the Committee of Guarantees to the Reparation Commission concerning the interpretation of the word "exports" in the Schedule of Payments." The Committee of Guarantees, during its recent visit to Berlin, was instructed by the Reparation Commission to ascertain the views of the German Government regarding the definition of the word "exports" as applicable under the Schedule of Payments, and upon the total value of which the Index referred to in Article 4 of the Schedule of Payments (copy of which I have sent you) should be based. This question is referred to in the above mentioned cable to the State Department. This paper is the Committee's report to the Reparation Commission but has not as yet been passed on. LOOSE IN FILE
- 5.- "Report of a conversation with Herr Bergman" concerning the possibility of raising an internal loan within Germany to meet immediate payments on Reparation account. LOOSE IN FILE
- 6.- Extracts from ~~copy~~ of a report made to the State Department concerning recent conversations between Loucheur and Rathenau. 7/20/21

JAMES A. LOGAN Jr.

-2-

regarding suggested method for "Deliveries in Kind" to France.

You will of course appreciate the confidential character of all the foregoing. I hope you will find them interesting.

Faithfully yours,

Jan A. Logan Jr.

Incls.
JAL/BD

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

COPY

GREEN

Paris,

Dated July 27, 1921.

Rec'd 10:14 P. M.



Secretary of State,
Washington.

462, July 27, 9 P.M.

B-519. Reparation Commission carries deposit sixty-four million dollars Federal Reserve credit Bank of England and Bank of France. Bank of England reports communication Federal Reserve July 11th in substance: "View conditions of money market prefer not guarantee in advance rate reinvestments. Will reinvest best rate of interest obtainable and reserve one quarter one per cent per annum from such rate compensation our services guarantee and commitment purchase fifteen days notice of the (?) charge one quarter one per cent yielding one hundred and sixty thousand dollars annually considered high. Bank of England carries three million sterling account much more active whose fifty thousand pounds free deposit yielding commission one sixteenth one per cent. Finance service they represent one eighth of one per cent sufficient. Suggest Department discuss matter Federal Reserve finance service suspending action pending reply. Boyden.

HERRICK

HPD

C797

COPY

HCC

GREEN

Paris,

Dated July 28 1921.

Rec'd 2:43 P. M.

Secretary of State,
Washington.

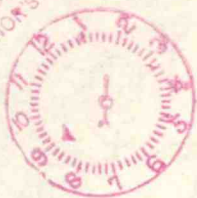
463, July 28, noon.

B 520. Your B 259, July 26. Arrangement for guarantee against exchange risks by Governments continued for July. Do not expect any change for August. Boyden.

HERRICK

LM

RECEIVED
GOVERNOR'S SECY.



AUG 3 1921



THE UNDERSECRETARY OF THE TREASURY
WASHINGTON

CONFIDENTIAL

July 28, 1921.

My dear Governor:

I enclose for your information a copy of
a cablegram from Mr. Boyden, dated July 25, 1921,
as to the reparation payments which the German Gov-
ernment expects to make this week and the first week
in August.

Very truly yours,

J. D. Tully

Benjamin Strong, Esq.,
Governor, Federal Reserve Bank,
Federal Reserve Station P. O.,
New York, N. Y.

1 enclosure



C 797

THE UNDERSECRETARY OF THE TREASURY
WASHINGTON

ANSWERED

JUL 30 1921

W. A. S.

July 29, 1921.

Dear Mr. Case:

I transmit herewith a copy of a cablegram dated July 27, 1921, from Mr. Boyden on the question of the compensation of the Federal Reserve Bank of New York for its services in connection with Reparation Commission deposits for account of Bank of England and Bank of France. I understand that Governor Strong has already seen a copy of this cablegram in Washington.

GENERAL FILES
AUG 1 1921
FEDERAL RESERVE BANK

Very truly yours,

S. D. Gilbert

J. H. Case, Esq.,
Deputy Governor, Federal Reserve Bank,
Federal Reserve Station P. O.,
New York, N. Y.

GENERAL FILES
AUG 8 1921
FEDERAL RESERVE BANK

1 enclosure.

CONFIDENTIAL

BERLIN, 29th July, 1921.

The Chairman of the
Deutsche Kriegslastenkommission.

Sir,

In the name of the German Government and with reference to the letter of the Imperial Chancellor, N°. V.E. 5533, of the 1st July, 1921, the German Kriegslastenkommission has the honour to make the following reply to the notes transmitted on the 28th June, 1921:

I The German Government has no objections to raise to the estimates drawn up by the Committee of Guarantees in Note 1, under Article IV of the Schedule of Payments of the 5th May, 1921, in respect of the payments to be made by Germany in 1921 and the following years.

In regard to the dates of payment, however, attention is drawn to one point, which still requires explanation. According to the scheme of the Committee of Guarantees, the quarterly annuities, which under the Schedule of Payments, fall due on the 15th May, 15th August, 15th November and 15th February, shall be paid at the rate of one third two months in advance, and another third one month in advance. Should this scheme be literally applied, the German Government would have to pay $4 \times \frac{1}{3}$ of 275 millions two months, and $4 \times \frac{1}{3}$ of 275 millions one month before the date provided for in the Schedule of Payments, which would amount to a charge of roughly 4,625 millions gold marks per annum. The German Government is of the opinion that this charge is not provided for in the Schedule of Payments of the 5th May, 1921, and requests the Committee of Guarantees to confirm that, if Germany agrees to the method of payment laid down in Note 1, she will be credited with interim interest at the rate of 5% in the usual manner on the sums paid in before the due date.

The Committee of Guarantees further requires that the Customs receipts shall continuously be paid in foreign currencies or gold at such a place as shall be indicated by the Committee of Guarantees. The German Government, therefore, would be obliged continuously to procure currencies for Customs receipts and would lose its necessary freedom of action owing

to the necessary general procuring of currencies. The German Government is of the opinion that the spirit of the Schedule of Payments would be complied with if the Customs receipts were paid in quarterly instalments, viz. if the corresponding value of the Customs receipts for the next but one preceding German financial quarter were paid on the 15th January, 15th April, 15th July and 15th October. In the opinion of the German Government, however, it is not necessary continuously to change the Customs receipts into foreign currencies; it will be quite sufficient if they remain attached for the purposes of the Committee of Guarantees until the payment of the quarterly instalment of the fixed annuity has been covered by deliveries in kind, or by some other means.

II. In accordance with Article VII, §2, Sub-Para. c of the Schedule of Payments of the 5th May, 1921, the German Government has offered to transfer the revenues of ~~six~~ different taxes, making a sum total of 25,000 million paper marks, as security for that part of the German debt which is not covered by deliveries in kind or the receipts obtained in Great Britain through the "German Reparations Recovery Act", provided that the claims to the import and export duties and revenues arising out of a tax on export values, under Article VII, §2, Sub-Paras. a and b are renounced.

On the other hand the Committee of Guarantees has declared that it could not for the moment renounce the claim to the Customs receipts, which were assessed at 200 million gold marks, nor to the revenues arising from a tax on export values, provided for in Art. 7, §2, Sub-para. b of the Schedule of Payments. The Committee is merely willing to allow the revenues from the six other taxes to rank as a supplement, and claims 50% of these by way of guarantee.

The German Government is therefore face to face with an entirely new situation. The offer of the revenues arising out of 6 taxes and amounting to 25,000 millions, as a substitute for the sources of revenue required under Art. VII, § 2 sub-paras. a and b, and supplementary to them, was made for the purpose of covering a sum of 1690 million gold marks. Since the Committee of Guarantees considered itself for the time being unable to renounce the sources of revenue mentioned in Art. VII, § 2, sub-paras. a and b, either in point of fact or on a question of principle and particularly demanded the payment of the equivalent value, it is now necessary to offer a supplement to the funds mentioned to the amount of 650 million gold marks. Under these circumstances the German Government can no longer keep open its offer of the 18th June. It also greatly regrets that it cannot comply with the suggestion of the Committee of Guarantees to the effect that half of the revenues arising out of the 6 different taxes should be treated as a supplement. The German Government is obliged to take steps to ensure that its financial and political freedom of action is not restricted any further than is made absolutely necessary through the direct application of the Schedule of Payments. Unnecessary work and expense would also result from the transfer of the revenues of 6 different taxes.

The German Government therefore proposes to the Committee of Guarantees, as security for the sum of 650^{million} gold marks, the revenues of the turnover tax (excluding luxury tax) up to the amount of 12,500 million marks. In doing so, the German Government acts on the supposition that the bill for an increase of the turnover tax will become law and come into force as from the 1st April 1922. Should this supposition prove false, the German Government reserves the right to/

submit other proposals immediately. The Committee of Guarantees is hereby requested to accept this proposal as ^a supplement to the other funds allocated.

With regard to the assignment of Customs receipts, the German Government, in order to avoid any possible misunderstanding, explicitly states that under Customs duties which are assessed at 200 million gold marks, in conformity with the German statements made at the morning Sitting of the 18th. July 1921, only those taxes should be understood which are levied on the import of goods in accordance with the German Customs tariff and German law upon the payment of Customs duties in gold.

III. With regard to the suggestion of the Committee of Guarantees as to the desirability of stabilizing the rate of exchange of the mark by balancing the budget and by stopping any further note issues, the German Government begs to point out that at the present moment a large financial programme is being prepared in accordance with which existing taxes will be considerably increased and new taxes introduced. By this means it is hoped to balance the receipts and expenditure of the ordinary Budget. Expenditure necessary to the execution of the Peace Treaty, which will be required for a longer period, and in particular expenditure in connection with the execution of the Schedule of Payments and the cost of the Armies of Occupation, will be merged - -

into the ordinary budget, so that out of the expenditure occasioned by the Peace Treaty, only those amounts which may be expected to be reduced in the near future, will remain on the extraordinary budget. The right of examining in detail the mode of payment is ^{reserved} ~~assured~~ until the separate figures have been finally established. The opportunity is however now taken of pointing out that the expenditure of the ordinary budget is increased by more than 100,000 millions, and that this financial programme makes very heavy calls indeed upon German taxpayers. This transformation of the budget will only come into full effect in 1922 and the following years. It will therefore only be possible gradually to restrict new note issues. In how far the attempts to arrive at a balancing of the budget and the suspension of the issue of new notes are capable of realisation will furthermore depend considerably upon the facilities granted to Germany to restrict unproductive expenditure under the Peace Treaty. The German Government is ready to supply the Committee of Guarantees, upon request, with fuller details as to the amount of what, in its opinion, constitutes unproductive expenditure, together with information regarding the object of such expenditure. Opportunity is now taken of drawing special attention to the cost of occupation of the Rhineland, the expense of the Interallied Missions of Control, and to certain military measures taken by these Missions.

IV. The second Note of the Committee of Guarantees exhaustively summarises all the remarks which have been made on the German side in regard to the meaning of "Export" and improvements to be made with regard to export statistics.

V. As has been pointed out many times by the German representatives at the joint meetings, considerable hesitation is felt in regard to the direct collection of 25% of the equivalent value of German exports. It does not appear necessary on this occasion to go once more in detail into the

difficulties, which stand in the way of direct collection. The German Government maintains its point of view: in fulfilment of the request contained in Note 3 it will however prepare a system for the direct collection of a certain percentage of the equivalent value of exports. The German Government however reserves the right of getting into touch once more with the Committee of Guarantees on this matter.

VI. So far as the organisation of a system of supervision is concerned, reference is made to the verbal statements of Herr Schroeder at the interview of the 29th June.

The German Government has the honour to state once more that it regards the prescribed measures of supervision as too far-reaching. It is of the opinion that these measures will prove a source of difficulty and/

friction of all kinds which would be calculated to endanger the material aims of the control.

The reason for providing securities in accordance with Art. VII of the Schedule of Payments is to provide the holders of the bonds to be issued with security that the service of interest and amortisation will be carried out correctly and punctually. As exact dates of payment are prescribed under Article IV of the Schedule of Payments, and as the individual payments are to be made by a number of instalments during the interest year (Zinzenjahr), this already amounts to a guarantee for the proper functioning of the bond service, and the security required under Article VII of the Schedule of Payments should be regarded as additional thereto. In other words recourse should only be had to the guarantees if, and as soon as, the current obligations are not fulfilled correctly and punctually. Therefore so long as the individual payments are correctly and punctually effected, there is no necessity for the establishment of an organisation to control the matter in detail.

The proposed Supervisory Organisation demands much more than that which has hitherto been expected of other States on the taking up of foreign loans. Financial control has so far only been exercised over States, the administration of which at critical moments should really not be compared with that of the present German Administration. In Germany the Finance Administration conducts its business in an

(8)

appropriate and orderly manner, strictly observing all the regulations of its service.

The Committee of Guarantees requires:-

- (a) Control over the correct entering-up and classification of export values by the Imperial Statistical Bureau (Statistische Reichsamt);
- (b) Control over the finance administration in general, and over the correct entry classification and delivery of the Customs receipts and receipts from the various taxes which have to be handed over as security for the remainder of the interest which is not otherwise covered.

The following remarks are made in connection with (a):-

The German Government agrees to an official of the Committee of Guarantees being attached to the Imperial Statistical Bureau (Statistische Reichsamt), for the purpose of studying the methods employed when establishing trade statistics, so that he may assure himself of the manner in which these methods are applied, and of their success, and report thereon to the Committee of Guarantees.

The Imperial Statistical Bureau (Statistisches Reichsamt) will be instructed to supply all information required to this end, and to grant permission for the examination of the official files. This permission however is granted subject to only such information being required as may be really necessary for the fulfilment of the objects of the Committee of Guarantees; and

also that the Imperial Statistical Bureau (Statistisches Reichsamt) will not be called upon to give information beyond that which it may supply under the legal provisions governing its relations with the public who are under the obligation to furnish such statistics. Officially speaking, the German Government acts on the supposition that such information can only be required as a matter of principle from the President of the Imperial Statistical Bureau (Statistisches Reichsamt). In order to simplify work, the President will appoint a senior official to whom the representative of the Committee of Guarantees must apply for assistance. The representative of the Committee of Guarantees will receive all possible assistance within the above-mentioned limits.

The German Government also agrees to an occasional inspection of the Declaration Offices (Anmeldestellen), where the representative of the Committee of Guarantees can assure himself of the manner in which the export declarations are made, and of their regular transmission to Berlin.

The German Government however considers it necessary that this supervisor should always be accompanied by an official of the Imperial Statistical Bureau (Statistisches Reichsamt). The German Government is of the opinion that only by such means will it be possible for any objection which may be raised by the representative of the Committee of Guarantees, to be quickly and adequately dealt with and misunderstandings avoided.

There will be difficulties in the way of the quarterly convocation of the Trade Statistics Board

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There will be difficulties in the way of the quarterly convocation of the Trade Statistics Board

(Handelsstatistische Beirat), as the fact should not be overlooked that it will in many cases be impossible for the honorary active members to accept the invitation to the quarterly meetings. The German Government therefore suggests that the representative of the Committee of Guarantees shall by virtue of his work at the Imperial Statistical Bureau (Statistisches Reichsamt), decide whether it will be necessary to call the quarterly meeting of the Trade Statistics Board (Handelsstatistische Beirat).

Annex I. Annex I with 10 sub-annexes contains - classified and explained - the regulations governing trade statistics.

The following explanation is given in connection with (b):-

According to Note 5, N° 2 the Committee of Guarantees wishes to depute to the Imperial Ministry of Finance a special representative belonging to the Delegation of the Committee in Berlin, to whom shall be accorded the right of examining all documents (instructions, circulars, etc.) relative to the assessment and collection of the ~~various~~ ^{various} sources of revenue. The representative shall also be empowered to demand that the monthly summaries of receipts from the allocated sources of income be submitted to him. A number of supervisors attached to his service are to obtain explanations from the district and local officials of the Imperial Finance Administration, and check their account-keeping. In this way there would be the special supervision of the Delegation of the Committee of Guarantees in addition to the existing German control over the actual /

entry of all Customs duties and tax amounts which are legally payable, their entry in the prescribed receipt-books; the correct transfer of the entries on the receipt-registers of the Collection Depots, the Receipt Registers of the Oberfinanzkassen and the Official Receipt Reports of the Imperial Ministry of Finance, which have to be published monthly. In addition to the German control there would also be the further supervision of the Delegation of the Committee of Guarantees, exercised in one way or another.

Such supervision would only appear justifiable in the eyes of the German Government if German methods were inadequate or insufficient.

Annex II. Annex II with II sub-annexes, gives an exact explanation of the organisation and administration of receipts, and particularly of the organisation of the correct and complete method of dealing with such receipts. According to this every possible guarantee is furnished that all sums legally due for Customs Duties or Tax amounts and all other Taxes will be collected; that the amounts and thus collected will be entered in the Receipt Books; from this will be transferred every month and quarter on the Receipt Registers and Statements of Receipts, which have to be handed in to the Imperial Accounts Office of the Imperial Ministry of Finance. To begin with, preliminary books to the Receipt Books are kept. The prescribed certificates stating that the data contained in the Receipt Registers of the Collecting Offices agree with those of the Receipt Books, are made out in the Local Administrations by senior officials of the Finance

Administration who have not been concerned in the collection of the receipts nor in the keeping of the Receipt-Books. The certificates concerning the correctness of the Reports drawn up by the "Oberfinanzkassen" are issued by the Senior Directors of Accounts in the district administration, which are over the "Oberfinanzkassen". In this manner there is complete control and guarantee in respect of the accurate transcription of the Taxes legally due into the Receipt Books, and their correct transfer from these Receipt Books into the Receipt-Registers and Receipt-Reports. In addition, provision is made for a further control of the books by the Accounts Offices of the Landesfinanzämter. Finally, the highest Accountancy Service of the Empire, the Accountancy Department (Rechnungshof) in Potsdam, verifies the individual accounts to be presented to it by the "Oberfinanzkassen", and the general account to be drawn up by the Imperial Paying-in Office (Reichshauptkasse). In addition to this, the prescribed ordinary and extraordinary trade and revenue revisions offer a still further guarantee. In the opinion of the German Government, this well-thought out, perfected system of control, which has stood the test for more than 100 years, offers every guarantee which the Committee of Guarantees could desire in view of its responsibility in the matter.

The German Government therefore requests that supervisors should not be sent to the District and Local Offices to collect information and examine the books and accounts kept in those offices.

It would also appear unnecessary to the German Government for an official to be permanently attached to the Imperial Ministry of Finance, and for him to be (supplied)

supplied with all the general decrees and documents relating to the prescribed sources of revenue, from which the monthly receipt reports are prepared by the Imperial Ministry of Finance. The general orders in connection with Customs Duties are regularly published in the "Reichszollblatt", and those referring to Taxes in the "Reichssteuerblatt". These two official papers, of which copies are attached to Annex II as sub-annexes 12 and 13, will be regularly supplied in as many copies as required to the Delegation of the Committee of Guarantees. Furthermore, the Delegation of the Committee of Guarantees will receive several copies of the monthly Receipt Reports drawn up by the Imperial Ministry of Finance (Sub-Annex 7 to Annex II). Should the Committee further desire to send a representative to examine the documents (monthly and quarterly Receipt Reports of the "Oberfinanzkassen") upon which the total monthly figures for the revenues accruing out of the Customs Duties and Taxes for the whole Empire, are established by the Imperial Accountancy Department of the Ministry of Finance, the German Government is willing to give the necessary instructions to this effect. It is however requested that the official thus delegated should only conduct such examination and verification of the total monthly return of Customs duties and turnover tax, when the final figures have been established and published in the Official Receipt Reports. The Receipt Reports of the "Oberfinanzkassen" contain, as may be seen from sub-annexes 5 and 6 of Annex II, not only the monthly or quarterly receipts from Customs, including extra charges and ^{*Rufgeld*} taxes, but also the receipts from the numerous other branches of Imperial Taxes. They must therefore be passed through the

Imperial Accountancy Department so that the total figures for the separate Taxes may be worked out, and can only be submitted in a classified form when each month's work has been completed, i.e. when the Official Receipt Report has been drawn up. For the same reason it is not possible to supply the representative of the Delegation of the Committee of Guarantees with these Receipt Reports, as only one copy of each is forwarded to the Imperial Accountancy Department. These Reports can be examined in the Imperial Accountancy Department itself.

The Imperial Ministry of Finance will appoint a senior official who will transmit the wishes of the representative of the Committee of Guarantees to the proper quarter, and the services of this Official should be employed in such matters.

The above observations furnish the Committee of Guarantees with a complete explanation of the existing German regulations governing the correct collection and employment of the revenues of the Empire.

Future negotiations with the Committee of Guarantees would, in the opinion of the German Government, be considerably facilitated, if one or more representatives of the Committee of Guarantees were deputed to visit the competent offices and convince himself or themselves of the correct working of the organisation as explained above, on the basis of the documents and regulations which have been transmitted. The German Government is always willing, upon request, to give the required instructions to this effect, and to grant all necessary facilities.

I have the honour to be, Sir,

Imperial Ministry of Finance
Geheime KANZLEI

ANNEX 1

LIST OF LAWS IN FORCE WITH REGARD TO
TRADE STATISTICS.

Sub-Annex 1. Regulation relating to statistics of trade
1. with foreign countries dated 7th. February 1906
(Reichs-Gesetzbl. Page 109).

Sub-Annex 2. Executory orders and service regulations in
I 2 connection therewith dated 9th. February 1906
(Centralblatt für das Deutsche Reich No.9, Page 137)

Sub-Annex 3. Decree of the Bundesrat dated 5th. April 1909
I 3 with regard to alterations in Para. 20 of the
executory orders regarding the statistics of trade with
foreign countries dated 7th. February 1906 and Annexes
(A) and (C) of the statistical trade list (increase of
those goods for which in certain trade indices, beside the
statistical number, the usual trade term is also to be
included, and the extension of the obligation of declar-
ing export value to 1336 Nrn. and with regard to import
to 32 Nrn. (Zentralblatt für das Deutsche Reich, Page
141)

Sub-Annex 4 Decision of the Bundesrat dated 9th. February
I 4 1911 with regard to alterations in the executory orders
and service regulations regarding the law in respect of
the statistics concerning trade with foreign countries dated
7th. February 1906 and also Annexes A and C of the
statistical trade list (increase of those goods for which
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extension of the obligation of declaring export value to
all goods and as regards import to 61 Nrn. of the statistical
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Sub-
Annex
I. 5

5 Order with regard to the drawing up of statistics of exports dated 15th. January 1919 (Reichs-Gesetzbl. Page 53. Executory orders in connection therewith dated 22nd. March 1919 (Zentralblatt für das Deutsche Reich, Page 55.

Sub-
Annex
I. 6

6. Decision of the Bundesrat dated 6th. February 1920 concerning alterations in the Executory orders and service regulations regarding the law dated 7th. February 1906 in the statistical trade list and in Annex B. thereto; and also of the list of wholesale goods (Zentralblatt für das Deutsche Reich, Page 415 et seq.) Increased use of trade indices, redrafting of the list of countries of origin and destination).

Sub-
Annex
I. 7

7 Alterations in the Executory Orders covering the decree with regard to the drawing up of statistics relating to export of goods dated 19th. June 1920 (Zentralblatt für das Deutsche Reich, Page 1250). (Name of seller, receiver and of those persons for whose account delivery is taken need not, generally speaking, be included in the export declarations. An approximate estimate is all that is necessary for payment. Communication of the place of payment need not be made. An approximate statement is sufficient with regard to freight, insurance and other costs.

Sub-Annex
I. 8

8. Decree for the alteration of Service regulations concerning the law; relating to statistics for trade in foreign countries dated 7th. February 1906 and 8th. July 1920, (Zentralblatt für das Deutsche Reich, Page 1298). (The Post Offices where goods are given in are used as Statistical Centres with regard to consignments abroad by post.

Sub-
Annex
I. 9

9. Regulations with regard to declaration of the value of imported goods dated 12th. February 1921 (Zentralblatt für das Deutsche Reich, Page 126) (Extension of the declaration of value to total import).

Sub-
Annex
I. 10

10. Decree with regard to statement of country of origin on export will shortly be published in the Zentralblatt.

Annex II.

Statement with regard to existing German regulations concerning the assurance of returns, exact statistics and payment of customs receipts and the turnover tax.

(1) ORGANISATION OF THE STATE FINANCE

ADMINISTRATION.

A. General:

The central administration of the whole of the financial administration of the State is the State Ministry of Finance (Reichsfinanzministerium). Below this come the Provincial Finance Bureaux (Landesfinanzämter) (26), from which again depend the financial offices for the administration of direct and trade taxes and the Chief Customs Offices for the administration of the Customs and Excise (Verbrauchssteuer). Under the Chief Customs Office come the ordinary Customs Offices (several thousands) which are entrusted with the levying and collection of the Customs and Excise duties. In addition, the districts of the Chief Customs Offices are divided into supervisory districts for the supervision of the general Customs and Excise Department. These supervisory districts are administered by special officials.

B. Service for supervising cash receipts in the Customs Service:

The Customs Houses and their dependent Customs Receipt Bureaux are under the orders of the Customs Cashiers. In the case of small Customs Offices these officials are the Heads of the General Customs and Excise supervising services of the districts in which such Customs Offices are situated. In the case of larger Customs Offices these officials are the supervisors (Amtsvorstände).

These cashiers are not concerned in the administration of the current cash receipts. The cashiers are under the orders of the Heads of the Chief Customs Offices: These again are under the orders of the President of the Department for Customs and Excise Duties of the Provincial Finance Bureaux (Landesfinanzämter). At the head of the whole of the Divisions of the Provincial Finance Bureaux (Landesfinanzämter) is the President. The Higher Finance Bureau (Oberfinanzkasse) to which the Customs Cash Offices are subordinate is incorporated in the Provincial Finance Bureaux (Landesfinanzämter).

The Central Cash Department for the State is the State Treasury (Reichshauptkasse).

C. Supervision of the Cash Receipts as regards the Turnover Tax:

The remarks made above with regard to the supervisory service of cash receipts for the Customs Administration also holds good for the State Taxation Administration which, together with the former, constitutes the State Finance Administration, together with the Administration for the Turnover Tax. In the place of the Chief Customs Offices and the Customs Offices come the Finance Offices (Finanzämter) and in the place of the Customs Cash Bureaux (Zollkassen) come the Finance Cash Bureaux (Finanzkassen).

(2) COLLECTION AND VERIFICATION OF THE CUSTOMS

RECEIPTS.

The import of goods from abroad according to the Customs Union Law of the 1st July 1869 is linked up with certain lines (Railways) and landing places. All goods as soon as received must be notified to the Customs Offices situated at these places. From this moment onwards the goods are controlled while they remain in Germany uninterruptedly by a system of Customs papers and registers

(notification of entry of goods, consignment notes and waybills) and are supervised until they pass into free commerce, having paid Customs duty, or on account of their being free of duty or until they are re-exported. The amount of duty to be paid is noted on the Customs papers and a note made that collection has been effected, the booking number in the Customs Receipt Book being given. The daily sums on account of a single customs receipt are transferred from the Customs Receipt Book into the actual Cash Book. The declarant receives a receipt for every payment made direct to the Cash Office. In this receipt the number of the Receipt Book also has to be given under which the amount is entered. The declarant has an actual interest in obtaining this receipt as it forms a proof that he had paid the Customs duty on the goods.

The Customs Service must, as a matter of principle, be carried out by two officials. The management of the cash business is also on principle in the hands of two officials (Customs Offices which are run by one official alone, are situated on unimportant routes where there is not much traffic, and the receipts are unimportant). The Supervisory Cashiers (Kassenaufsichtsbeamten) and the Heads of the Chief Customs Offices are continuously visiting the Customs Offices for the purpose of verifying the conduct of business without any previous warning, or for the holding of previously-arranged ordinary or extraordinary surprise cash examinations. In the same way the President of the Department for Customs and Excise Duties of the Provincial Finance Bureaux (Landesfinanzämter) occasionally verifies the conduct of the Customs Offices in regard to business and cash administration.

At the end of every month and quarter the results of the period in question are *shown clearly in the receipt-books* established. These results are immediately transmitted to the "Higher Finance Bureaux" (Oberfinanzkassen) in monthly and quarterly Receipt Registers

Sub-
(Annex 1)

(Einnahmenachweisungen) attested by the Supervisory Cashiers (Kassenaufsichtsbeamten) (compare § 98 of the annexed model of a formular for the Finance Bureaux (Finanzkassen) which is provisionally valid, and the proofs of the Receipt Registers). The Higher Finance Bureau

Sub-
(Annexes 3 & 4)

(Oberfinanzkasse) classifies the data received, enters them every quarter in the Account Book kept by it, and transmits the results for the whole district of the Provincial Finance Office (Landesfinanzamt) in the form of monthly or quarterly Receipt Reports, to the State Accountancy

Sub-
(Annex 2)

Department (Reichsrechnungsstelle) of the State Ministry of Finance. (§ 38 of the formular for the "Higher Finance

Sub-
(Annex 5 & 6)

Bureaux" (Oberfinanzkassen) and proofs of the Receipt Reports). On the basis of these documents, the State Accountancy Department (Reichsrechnungsstelle) prepares a summary from which the revenue arising out of each individual branch of receipts, and arising out of this the Customs Receipts for the whole State may be seen. This summary is published in the "Reichsanzeiger" and the "Zentralblatt für das Deutsche Reich". A copy of the summary for the month of May 1921 is annexed hereto.

Sub-
(Annex 7)

At the end of the year, the Higher Finance Bureaux (Oberfinanzkassen) prepare in addition a special detailed Register (Einzelnachweis) of the receipts as recorded in the Receipt Registers and Summaries, as per

Sub-
(Annex 8)

example annexed. In these detailed Registers (Einzelnachweis) the annual results of the individual sources of revenue are given separately according to Customs Offices (Zollkassen). The detailed register (Einzelnachweis) which forms the basis upon which the "Rechnungshof" of the German State (which is entrusted with the supervision of all revenues of the State), can verify the annual accounts, is also submitted to the Imperial State Accountancy Department (Reichsrechnungsstelle). The Higher Finance Bureaux (Oberfinanzkassen) must

Sub-Annex 9

in addition draw up a final administrative account (Verwaltungsabschluss) for the official year in accordance with Sub-Annex 8, and transmit it to the State Accountancy Department (Reichsrechnungsstelle). This final administrative account must include the total receipts and expenditure of the Higher Finance Bureaux (Oberfinanzkassen). The correctness of this account and its agreement with the books of the Higher Finance Bureaux (Oberfinanzkassen) and the above-mentioned detailed Register (Einzelnachweis) of revenue, must be explicitly attested by the First Accountant (Erste Rechnungsdirektor) of the Provincial Finance Office (Landesfinanzamt) after a thorough comparison.

(3) FURTHER MEASURES OF PROTECTION BY EXAMINATION
OF BOOKS AND RECORDS.

Sub-Annexes
10 & 11.

As stated above under No. (2) the Customs Offices (Zollkassen) close the Customs Receipt Books once a quarter, and thereupon forward them with all records and preliminary books to the Provincial Finance Offices (Landesfinanzämter). In accordance with the annexed decision of the Bundesrat, dated 27th November 1913 - § 1300 of the Protocol and No 159 of the printed matter - the Provincial Finance Offices (Landesfinanzämter) compare the preliminary books and records with the entries in the Receipt Books, so that no actual receipts are missing from the Receipt Books; check the correctness of the additions in the Receipt Books and the accurate transfer of their total amounts to the additional Registers (detailed Register of Receipts (Einzelnachweis der Einnahme), final administrative accounts (Verwaltungsabschluss), annual accounts, Reports on Receipts) and verify the correctness of the records both for exactitude of subject matter and accuracy of calculation. Objections are explained and remedied. Should there be missing amounts, they will be called in and entered on the current receipt books.

In this manner every possible care is taken to prevent irregularities, which is guaranteed by the fact that all Customs and Tax Receipts to which the State is entitled, are correctly recorded and reported to the State Accountancy Department (Reichsrechnungsstelle) every month.

(4) COLLECTION AND RECORDING OF THE RECEIPTS FROM
THE TURNOVER TAX.

Turnover Tax declarants must notify the Tax Office upon the commencement of their commercial or professional business, and must supply notes for the purpose of establishing the amount of the Tax to be levied. They are subject to ^{State} ~~tax~~ control.

The competent authorities for the administration, establishment and collection of the Turnover-Tax are the Finance Offices (Finanzämter), Turnover-Tax Office (Umsatzsteuerämter). Over these come the Provincial Finance Offices (Landesfinanzämter).

The Turnover Tax Offices must keep the most complete list possible of the Tax declarants (list of names, turnover-tax register) based upon the declarations furnished by the latter, and the information received from the Provincial authorities (Landesbehoerden) (Police authorities and those who are concerned with the control of profiteering, etc.) The Turnover Tax Offices must also call upon the Tax declarants to provide Turnover Tax Declarations with regard to the total amount of taxes to be paid. The Turnover Tax Office controls the punctual return of these declarations by the help of the Turnover Tax Registers. The Turnover Tax Office examines the declarations, assesses the tax and enters the contents of the declaration and the amount of tax thus assessed in a Turnover Tax List kept for each calendar year. This takes the place of a Debit Register for tax

tax amounts which are payable, and of a Control Book for those which have been collected (Debit and net Receipts), and serves as a control over the punctual entries of the amounts due.

The Tax Declarant receives a notification from the Turnover Tax Office, stating the result of the assessment, and inviting payment of the Tax within two weeks. In addition to the Turnover Tax List for the calendar year, a Turnover Tax Receipt Book must be kept for the financial year. Both of these books, together with the records belonging thereto must be forwarded to the Provincial Finance Offices (Landesfinanzämter) by the 1st December for examination purposes. The remarks made under (3), § 1 also apply to the manner in which the verification of the books, etc. must be carried out in this case.

The Provincial Finance Office (Landesfinanzamt) can further decree that officials appointed for this purpose may from time to time check the keeping of the Turnover Tax Lists and all other business records at the Head Office. When doing so, the Turnover Tax Lists and Receipt Books are examined, to see that they are correct and agree with each other, and the Receipt Books and Annexes are checked as regards accuracy.

Finally, trial examinations must be made with the help of the Turnover Tax Registers, Lists of Names, Records, Tax Declarations, Reports, etc., in order to see whether the Tax is being assessed punctually, and calculated correctly. The State Minister of Finance may entrust other authorities than the Provincial Finanz Offices (Landesfinanzämter) with this examination.

When deliveries against payment are effected by persons who do not conduct any commercial business, or when furnished sleeping or dwelling premises are let temporarily against payment of at least 5 Marks per day or night, the

tax must be paid by the supplier or other responsible person either in cash or in receipt stamps on the form of acknowledgment of receipt of the payment. The Turnover Tax Office enters the cash payment in the Turnover Tax List, or should the stamped receipt be forwarded, the resulting deduction with a note of reference. It then enters the cash amount in the Receipt Book with a reference to the List, notes the payment of the tax on the receipt together with the number on the List and affixes the Office Stamp, and sends the receipt back to the supplier or other responsible person. In order thoroughly to guarantee payment of the Turnover Tax in the last-mentioned cases (private sales, acceptance of advertisements, and sub-letting by private persons), it is decreed that in legal proceedings, the person who is under an obligation to pay can only claim the discharge of his debt if he can bring with him proof that he has paid the Tax, or that the delivery was free from taxation.

All further explanation with regard to the Turnover Tax Receipts may be found in the monthly and quarterly Receipt Registers drawn up by the Finance Offices (Finanzkassen) the agreement of which with the Receipt Books must be certified by the Supervisory Cashiers (Kassenaufsichtsbeamten), and which will be assembled by the High Finance Offices (Oberfinanzkassen) with the Receipts Reports to be forwarded to the State Accountancy Service (Reichsrechnungsstelle).

As for the rest, the sums received for Turnover Tax and the calculation thereof with the Reichshauptkasse will be checked in the same manner as for Customs duties and other State Taxes.

In so far as the payment of the Turnover Tax is effected by the use of Turnover Tax stamps, the sums thus collected by the State Postal Service, which has the exclusive right of sale of stamps printed by the State

Printing Works, will also be reported to the State Accountancy Department (Reichsrechnungsstelle) every month and quarter, and be entered by the latter in the reports which it draws up regarding the total receipts of the State.

(c) TRANSFER OF THE RECEIPTS EXPECTED.

The amount in the cash box of the Customs Offices (Zollkassen) must not, as a matter of principle, be in excess of the maximum figure fixed by the Presidents of the Provincial Finance Offices (Landesfinanzämter). The Customs Offices (Zollkassen) must therefore transfer to the High Finance Offices (Oberfinanzkassen) all regular receipts, immediately the actual cash, together with the "Giro" and "Postcheck" amounts at the end of the day, are in excess of the maximum amount allowed. An exception to this rule is only permitted if the money present is required to meet payments which have been announced and have to be made immediately. At the end of the year the entire State receipts must be transferred to the High Finance Offices (Oberfinanzkassen). By this date, at the latest, the High Finance Offices (Oberfinanzkassen) which are in regular touch with the Reichshauptkasse, must transfer to the latter all receipts without any exception, after deduction of the ordinary expenditure.

Charge: State

Prepared by:
James A. Logan, Jr.

OUTGOING DISPATCH
R. W. B

30th July, 1921.

CONFIDENTIAL

SECSTATE WASHINGTON

B - ,523 Further reference Sub-paragraph One our B-511 July sixth STOP
FIRST - Question definition word QUOTE Exports UNQUOTE sub-heading A
Article Four Schedule Payments shortly comes before Commission for determination STOP
View far-reaching general economic effect as well as effect on market our raw
materials such as cotton and copper deem desirable again place situation before
Department STOP

SECOND - German exports officially classified as follows COLON A- QUOTE
General Commerce UNQUOTE includes all goods passing out over German frontiers STOP
Value not recorded STOP B - QUOTE Actual Commerce UNQUOTE same as QUOTE General
Commerce UNQUOTE with exception that value non-dutiable goods in direct transit thru
Germany such as Swiss and Czecho-Slovakian deducted STOP Value such exports 1913
eleven billion marks STOP Estimated value 1920 including reparation deliveries in
kind five billion eight hundred million gold marks STOP C - QUOTE Special Commerce
UNQUOTE same as QUOTE Actual Commerce UNQUOTE with deduction following COLON One -
Re-exported dutiable goods passing thru Germany without transformation STOP Two -
Goods belonging to foreign nationals brot to Germany in bond for finishing and
re-exported STOP Three - German goods sent abroad for finishing in bond and return
to Germany STOP Value such exports 1913 ten billion marks excluding precious metals
STOP Estimated value 1920 five billion fifty-three million gold marks STOP

THIRD - Germans propose definition QUOTE Exports UNQUOTE be based on QUOTE
Special Commerce UNQUOTE with following modifications COLON A - Exclude non-dutiable
foreign goods originally declared intended for consumption but actually re-exported

from bond without transformation including cotton rubber jute etc. STOP

B - Exclude import value foreign goods subject finishing and processing and then re-exported STOP C - Various articles both imported and exported by Germany for example coal wheat STOP Germans request only value excess such exports over imports be included STOP D - Exclude value reparation deliveries in kind STOP

FOURTH - Briefly German proposal implies that import value all foreign materials entering Germany and later exported be deducted from value total exports whether same are re-exported without transformation or used in industrial processes incident to export trade STOP Value re-exports under Class A above three hundred million marks 1913 STOP Import materials finished and re-exported Class B over one billion marks 1913 STOP Makes total of over one billion three hundred million marks to be deducted from QUOTE Special Commerce UNQUOTE 1913 in estimating QUOTE Export Index UNQUOTE under interpretation desired by Germans STOP

FIFTH - Advised tacitly agreed London when Schedule Payments Grafted that present German category QUOTE Actual Commerce UNQUOTE to be used as Index upon which variable annuity to be based STOP Regardless economic objections convinced majority delegates Commission will press for such purely judicial interpretation which is in my judgment correct STOP

SIXTH - As pointed out our Cable B-511 Index really results in actual twenty-six per-cent tax on each class exports with result traffic which can not bear burden will automatically cease to disadvantage not only Germany but also countries from which latter buys and others to which she sells STOP Interpretation as now anticipated will interfere with commercial arrangements in existence and contemplated between America and Germany STOP In my judgment governments concerned ought make the necessary changes in present index or better adopt some new index STOP

SEVENTH - Suggest attention Department Commerce be called to foregoing STOP

BOYDEN

C 797
GENERAL FILES
AUG 1 1921
FEDERAL RESERVE BANK
OF NEW YORK

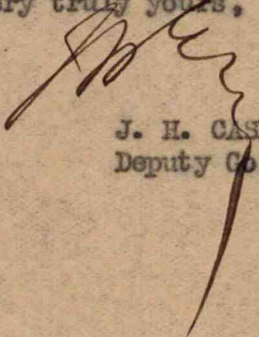
July 30, 1921.

Dear Mr. Gilbert:

✓ I have your letter of July 29 enclosing copy of Mr. Boyden's
✓ cable of July 27 regarding our compensation in connection with the invest-
ment of Reparation Commission funds on behalf of the Bank of England and
Bank of France.

7/27/21
We received a cable direct from the Bank of England on this
subject, and although we felt $1/4$ of 1% to be a fair charge, we have, after
again carefully considering the matter, replied to the Bank of England that
we agreed to the Reparation Commission's suggestion of $1/8$ of 1% as
compensation for our services, guaranty and commitment to purchase any
or all of the securities on 15 days' notice.

Very truly yours,


J. H. CASE,
Deputy Governor.

Honorable S. P. Gilbert, Jr.,
Under Secretary of the Treasury,
Washington, D. C.

197
MAILING DIV.
AUG 2 1921
FEDERAL RESERVE BANK

July 30, 1921.

CONFIDENTIAL

Dear Mr. Gilbert:

I thank you for copy of a cablegram from Mr. Boyden,
dated July 25, 1921, as to the reparation payments which the German
Government expects to make this week and the first week in August,
and which you so kindly sent us for our information in your favor of
July 28.

Yours very truly,

Benj. Strong,
Governor.

Honorable S. P. Gilbert, Jr.,
The Undersecretary of the Treasury,
Treasury Department,
Washington, D. C.

GB:MM



THE UNDER SECRETARY OF THE TREASURY
WASHINGTON

August 2, 1921.

My dear Governor:

I received in due course your letter of July 15, 1921, with reference to the German reparation payments. Subsequent developments indicate that arrangements have now been made, with some success, for payments in other foreign currencies, rather than dollars, with guaranties against exchange risks by the Governments concerned. A cablegram dated July 28th from Mr. Boyden, a copy of which is enclosed, indicates that these arrangements have been continued for July and will probably not be changed for August.

I quite agree with you as to the ultimate effect of conversion into dollars, and the desirability of avoiding undue disturbances in the exchanges while dollars, or for that matter, other currencies are being accumulated. It is at least doubtful whether our representatives abroad understand the exchange situation, and whether they are alive to the methods that should be employed to reduce exchange fluctuations to the minimum. On the other hand, the situation is largely in the hands of the Reparation Commission and the principal allied Governments, and so long as we are kept fully advised of developments, and so far as possible given advance notice, I should be disinclined to call any conference of foreign exchange men such as you suggest. Do you still feel it would be advisable? After all, the interest of this Government,

C-797
READ AND NOTED,
B. S.

as a Government, in the method of making the reparation payments, is quite remote, and I should think that those directly concerned, including the allied Governments and the foreign exchange men in this country, could be expected to watch the situation and in the long run to eliminate exchange disturbances so far as possible.

Very truly yours,

S. W. Gilchrist

Benjamin Strong, Esq.,
Governor, Federal Reserve Bank,
Federal Reserve Station P. O.,
New York, N. Y.

1 enclosure



THE UNDERSECRETARY OF THE TREASURY
WASHINGTON

c797
ACKNOWLEDGED

AUG 3 - 1921

B. S.

August 2, 1921.

My dear Governor:

6/16/21
I enclose for your information a copy of a
despatch from the American Consulate General, at Lon-
don, England, which summarizes a recent address by Mr.
Reginald McKenna as to the method of making the German
reparation payments.

Very truly yours,

J. S. Gilbert

Benjamin Strong, Esq.,
Governor, Federal Reserve Bank,
Federal Reserve Station P. O.,
New York, N. Y.

1 enclosure

August 3, 1921

My dear Governor:

I enclose for your information a copy of a
report from the American Association of Banks, at Wash-
ington, D.C., dated June 15, 1921, and signed by Mr.
Charles D. Jones, Secretary of the Association. The report
contains a statement of the Association's views on the
present monetary situation.

Very truly yours,

Handwritten signature

Very truly yours,
Governor, Federal Reserve Bank
of St. Louis, Mo.
J. P. Morgan

RECEIVED
GOVERNOR'S SECY.



AUG 3 1921

C797

August 3, 1921.

Dear Mr. Gilbert:

I have for acknowledgment your letter of August 2, enclosing for our information copy of despatch from the American Consul-General at London, which summarizes a recent address by Mr. Reginald McKenna, as to the method of making the German reparation payments, for which please accept thanks.

Yours very truly,

Benj. Strong,
Governor.

Honorable S. P. Gilbert, Jr.,
Under Secretary of the Treasury,
Treasury Department,
Washington, D. C.

GB:MM

2797

JAMES A. LOGAN Jr.

Paris, 18 rue de Wilsitt.
4 August, 1921.

PERSONAL.

My dear Ben,

On July 26th I wrote you a letter enclosing certain papers which I thought would interest you. I have not been able to find any safe messenger until today so you will receive my letter of July 26th with this letter.

I am enclosing herewith for your confidential information viz:

LOOSE IN FILE

1.- Annex 1026, which is a general report by the Committee of Guarantees on its operations in Berlin during the month of June. You already have this information in a somewhat condensed form in the cable which I sent you in my letter of July 6th. This may however clear up some doubtful points.

LOOSE IN FILE

2.- Annex 1027a to f. This is a printed copy of the "draft report" in typewritten form enclosed in my letter of July 26th as item No. 4.

3.- Copy of a cable report to the State Department, B-523, dated July 30th. As a matter of fact, since this cable was sent the question came before the Commission and while no definite action was taken at the time there was a consensus of opinion that "actual commerce" referred to in Fifth Paragraph of cable applied, though additional consideration was to be given to whether or not the value of "deliveries in kind" should be included.

LOOSE IN FILE

4.- Copies of documents Nos. 17, 40, 41, 46, 47, 48, 50, 51, and 52, of the Committee of Guarantees which I have just received. I have not had a chance to read them all carefully but from a casual examination I believe they will contain much of interest to you. They are all documents which have been prepared by our Information Service in Berlin.

As exhibit ¹⁰ to my letter to you of July 18th, I sent you copy of a memorandum given me by Bergman regarding the exchange situation. We are just today in receipt of the following confidential information from our representatives in Berlin:

"From reliable confidential information believe that German Government will be obliged to

JAMES A. LOGAN Jr.

-2-

"announce about August 20th their inability to meet entire obligation of One Milliard gold marks which they must deliver Allies before August 31st. They have made every effort but Governmental Authorities doubt satisfactory results".

I am now preparing a cable for the State Department with this information which you will probably see before this letter reaches you. I believe that the Germans are being squeezed by speculators today and that this has much to do with the weakening of the paper mark. The Germans may contemplate breaking such speculation by an announcement public or through leakage of the foregoing. On the other hand such an announcement might even further weaken their paper mark. You are a better financier than I so I will leave you to make the guess. I don't take it too seriously.

You will, of course, appreciate the confidential character of all the foregoing information which I am sending you with Boyden's "unofficial" approval.

Faithfully yours,

James A. Logan

JAL/BD
Incls.

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

c797

JAMES A. LOGAN Jr.

Paris, 18 rue de Tilsitt.

8 August, 1921.

ACKNOWLEDGED
AUG 30 1921
B. S.

PERSONAL

My dear Ben,

I enclose herewith, for your information, copy of Annex No. 1045 of the Reparation Commission. This is a copy of the letter addressed by the Reparation Commission to the German Government advising the latter of the decision regarding the interpretation of the word "exports" which occurs in Article 4 of the Schedule of Payments. The same question was referred to in enclosures 2 and 3 in my letter to you of August 4th.

It is of interest to note the next to last paragraph on page 3 of the Annex. You will see that while the Commission maintains its position under the existing Schedule of Payments, it nevertheless impliedly invites the German Government to submit proposals for another index, or even farther by suggesting to the Germans that they propose fixed payments disregarding the index theory.

Faithfully yours,

James A. Logan Jr.

JAL/BD
1 incl.

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

Annex 1045
(See Annex 1027, Minute 211 No 1462)

CONFIDENTIAL

SCHEME FOR THE DISCUSSION OF THE REPARATION

COMMISSION ON THE DEFINITION OF THE WORD

"EXPORTS".

Gar/E/1

In its letter of May 25, 1921, the Kriegslastenkommission requested the Reparation Commission to give an interpretation of the word "exports", which occurs in Article 4 of the Schedule of Payments. At the meeting of June 14, 1921, the Reparation Commission directed the COMMITTEE OF GUARANTEES to take advantage of its visit to Berlin to learn the views and objections of the German Government in regard to this matter, so as to enable the Reparation Commission to adopt a decision on the question with full knowledge of the facts.

In its letter of July 21, 1921, the German Government sent to the Reparation Commission a report on the remarks submitted by the German Government; the question which the Reparation Commission has now to settle is whether the word "exports" in Article 4 of the Schedule of Payments is to receive the definition given it by the Germans in their statistics before and since the war, that is, in 1913 and in 1920, or is to receive a more restricted interpretation, founded chiefly on the measure in which an export may be considered to increase the wealth of the exporting country.

The difference is important, since if the second interpretation is adopted the figure of 10,992 million gold marks reported by the German Government in its export statistics for 1913 will be reduced to 7,466 million, and will inevitably be still further reduced by the logical application of the principles underlying this interpretation.

The Reparation Commission does not ignore the fact that

all of Germany's Exports are not a source of wealth to her, especially not to the amount of 26%; it does not, however, consider that it can give to the word "exports" any other interpretation than that which the German Government itself gave to it in the export statistics. The following reasons are advanced in support of this point of view:

1. When the Reparation Commission drew up the Schedule of Payments on May 5, 1921, its purpose was to determine the methods by which Germany might pay off her reparation debt. It wished to postpone the issue of a portion of the bonds representing this debt according to an index that it has chosen. In adopting this index, it took as a basis the figures of the German statistics, assuming that these figures develop as prices rise and German industry revives. It would be giving a false value to these basic figures and to the index itself if the word "exports" now received an interpretation different from that on which the calculations were based which determined the choice of the index, and it would, by reducing the variable annuity, indefinitely postpone the payment of interest on the entire debt and consequently the clearing up of the latter.

2. The objections urged against this interpretation are based on a false conception of the main idea of the Schedule of Payments. The Reparation Commission did not intend that the reparation debt should be paid solely from the profits which German industry might realise from its exports. This erroneous conception arises from a confusion between Article 4, which adopts an index, and Article 7, which provides a guarantee by means of a levy on exports. The Schedule of Payments, in an essential corollary, imposed on the German Government the obligation of reimbursing the exporters for this levy.

3. It might doubtless be maintained that the index thus

defined would result in a conflict of interests between the exporters and the mass of German taxpayers, since it is to the advantage of the latter to reduce the variable annuity and to postpone the paying off of the reparation debt, whereas the former wish to develop their business in order to increase their profits.

These are disadvantages which might lead the German Government to examine the question and to propose new indices, or to formulate other plans for the payment of the debt; they cannot, however, influence the Reparation Commission to modify the index which has served as the basis for its calculations and its economic estimates.

The Reparation Commission reserves the right to decide later whether it is necessary to include in the index the deliveries in kind made by Germany to the Allies, in particular those goods which Germany would not have exported by way of normal commerce and which would not normally be included among her commercial exports.

C797

JAMES A. LOGAN Jr.

Paris, 18 rue de Tilsitt.
10 August, 1921.

PERSONAL

My dear Ben,

By this time you are doubtless overfed with the letters I have been sending you. However, both Boyden and I feel that we should let you know matters of particular interest in the general financial situation, so I am writing you another letter.

I enclose herewith, for your confidential information,
viz:

1.- Copy of a letter from the German Government to the Committee of Guarantees, dated July 29, 1921. This letter is the German reply to the 5 Notes of the Guarantee Committee, which were transmitted to the German Government on June 28, 1921. The full text of the Guarantee Committee Annexes was given in Annex 1026 which I forwarded as enclosure No. 1 in my letter to you of August 4th. The German letter has not as yet officially come before the Committee and I have as yet only studied it in the most casual manner so I am making no comments on it.

LOOSE IN FILE

2.- Annex No. 1043 of the Reparation Commission. This is the full report of the results of the recent Loucheur-Rathenau conversations concerning "deliveries in kind". This subject is referred to in my letter to you of July 26th as Item 6. The question has not as yet been passed on by the Commission.

Faithfully yours,

James A. Logan Jr.

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

RECEIVED

TO THE HONORABLE CHIEF OF BUREAU OF THE
TREASURY DEPARTMENT
WASHINGTON, D. C.
FROM THE
FEDERAL RESERVE BANK OF ST. LOUIS
SEPTEMBER 1, 1921
SUBJECT: [Illegible]

[The following text is extremely faint and largely illegible, appearing to be a memorandum or letter body.]

SEP 1 1921



RECEIVED
GOVERNORS SECY.



THE UNDERSECRETARY OF THE TREASURY
WASHINGTON

READ AND NOTED,
B. C.
297

CONFIDENTIAL.

August 10, 1921.

My dear Governor:

I enclose for your confidential information
a copy of a paraphrase of a cablegram received
from Boyden, dated August 5, 1921, as to the
possibility that the German Government will be
unable to meet the reparation payment due in
August.

Very truly yours,

S. D. Ellert

Benjamin Strong, Esq.,
Governor, Federal Reserve Bank,
New York, N. Y.

1 enclosure.

PARAPHRASE OF CABLEGRAM.

FROM: American Embassy at Paris, France.
DATED: August 5, 1921, 5 p. m.
RECEIVED: August 5, 1921, 3:37 p. m.
NUMBER: 477. B-526.

Reference is made to our cablegram B-516. The following order has been received by the Commission from its Berlin representative:

"It is believed from confidential and reliable information that German Government will be obliged to announce about the 20th of August their inability to meet the entire obligation of one milliard gold marks which they must deliver to the Allies before the 31st of August. Every effort has been made by them but governmental authorities doubt satisfactory results."

While I do not take the foregoing seriously, suggest a confidential reference to the Federal Reserve Board and the Treasury Department. Boyden.

H E R R I C K.

797.1



THE UNDER SECRETARY OF THE TREASURY
WASHINGTON

CONFIDENTIAL.

August 20, 1921.

FILED
AUG 24 1921
FEDERAL RESERVE BANK

Dear Governor Strong:

I enclose for your information a copy of a paraphrase of a cablegram, dated August 19, 1921, from Mr. Boyden, with further reference to reparation payments by the German Government on August 20th and August 25th.

Very truly yours,

J. D. Philbrick

Benjamin Strong, Esq.,
Governor, Federal Reserve Bank,
New York, N. Y.

1 enclosure.

FEDERAL RESERVE
GOVERNMENT SEC.



AUG 23 1921

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DEPT. OF TREASURY

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Green

Paris

Dated August 19th, 1921.

Recd. 942 a.m.

Secretary of State,

Washington, D. C.

517, August 19th, 10am.

B-549. Supplementing my B-545.

German Government notified Reparation Commission would pay August 20th, account Belgian Government twelve million seven hundred fifty thousand dollars; six million pounds sterling, twenty three million five hundred thousand French Francs; ten million Belgian francs; in addition twelve million marks gold coin (see B-518) forwarded New York steamer "SUDBURY" expected to arrive August 18th. Further payments would be effected August 25th. One million two hundred fifty thousand of foregoing would be assigned Morgan, New York, account British Treasury. Boyden.

HERRICK.

CABLE MESSAGE FROM THE AMERICAN AMBASSADOR AT PARIS AUGUST 8, 1921,

4 p. m., NO. 516.

PARAPHRASE

Communicates message from Boyden, B-548, referring to his message B-545 and preceding messages relating to the same subject.

Logan has been told by Bergmann that he has just received information from Germany that that Government will before the date August 31, make payment of the entire milliard, and that this payment will be made without drawing on the metal reserve of the Reich Bank, as had been previously expected. It was added by Bergmann that Germany, with a view to making the entire payment by August 31, had obtained through the Reich Bank loans for short terms from Great Britain, Switzerland and the Netherlands, amounting to a total of some three hundred million marks gold. Some of these loans fall due before the middle of September. It was understood generally that these loans for short terms had been made, but the dates when they fell due were not known by speculators. Consequently, it was said by Bergmann that he thought the existing low value of the mark might be maintained after the last of the present month, inasmuch as payment of these short term obligations must be made. It is suggested that the Federal Reserve and the Treasury might be confidentially advised.

Di-JT/SS-GEM



ASSISTANT SECRETARY OF THE TREASURY
WASHINGTON

August 22, 1921.

Dear Ben:

Attached are two cable items which may be of interest to you. It is a little dangerous to send them while you are in your present company, but still I am taking the chance.

Hoping to see you tomorrow night,

Yours always,

E.W.

EXCERPT FROM CABLE B-543, Dated AUGUST 15, 5 P. M., PARIS.

*at Meeting of Finance Ministers
Paris*

Article Six. Governments recommend Reparations Commission take all precaution prevent reparation payment causing exchange fluctuations. Suggest cooperation exclusively invited national banks of issue powers represented Reparations Commission and the United States and possibly German banking organization designated German Government.

C O P Y

-copy-

Paris, 18 rue de Tilsitt,
22 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 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

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 market 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 advantage. 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

really tried to fulfil 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,

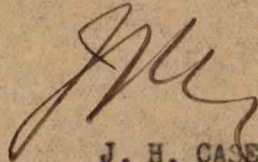
(Signed) James A. Logan, Jr.,
Unofficial Representative
of the United States with the
Committee of Guarantees.

797
August 23, 1921.

Dear Mr. Gilbert:

I acknowledge with thanks receipt of your letter of August 20 enclosing for our confidential information a copy of a paraphrase of a cable dated August 19, 1921, from Mr. Boyden with reference to Reparation payments by the German Government.

Very truly yours,



J. H. CASE
Deputy Governor.

Honorable S. P. Gilbert, Jr.,
Under Secretary of the Treasury,
Washington, D. C.



THE UNDER SECRETARY OF THE TREASURY
WASHINGTON

ANSWERED

AUG 29 1921

August 26, 1921.

J. H. C.

CONFIDENTIAL.

Dear Governor Strong:

I enclose for your confidential information a copy of a cablegram received to-day from Mr. Boyden, with further reference to the German reparation payments due August 31st.

Very truly yours,

W. J. Hill

Benjamin Strong, Esq.,
Governor, Federal Reserve Bank,
New York, N. Y.

1 enclosure.

B552
8/25/21

RECEIVED
GOVERNOR'S SEC'Y.



AUG 29 1921

COPY



CABLE MESSAGE FROM THE AMERICAN AMBASSADOR AT PARIS

August 25, 9 P.M., 1921, No. 523.

PARAPHRASE)

Communicates a message from Boyden, B-552. Referring to previous message B-549. Announcement was made at 12 M, August 25, that there remains as the balance of the Milliard due August 31, gold marks two hundred forty-one million five hundred thousand. Announcement was also made that on August 26, payments would be made as follows: sterling two million; dollars fourteen million seven hundred thousand; Belgian francs twenty-five million; French francs twenty-seven million five hundred thousand. On August 23, official information reached the Commission from the Germans that forty-two million marks in specie had been shipped to Brussels from the Reichsbank, to meet any deficit which might exist after Germany had completed her payments in the currencies of the allied nations; but at Brussels no information had been received that the specie had been really forwarded. Should the other payments which have been notified be completed, the additional forty-two million would exceed the amount Germany is bound to pay. I think it likely that Germany announced the above mentioned specie shipment as a precaution in case she might not obtain some of the loans made for short periods. As regards this, please consult my messages 548 and 545.



THE UNDER SECRETARY OF THE TREASURY
WASHINGTON

C 797
ANSWERED
AUG 29 1921

CONFIDENTIAL

J. H. C.
August 27, 1921.

My dear Governor:

I quote for your further information in connection with German reparation payments the following cablegram from Mr. Boyden, received to-day through the State Department:

"B-553. In reference to B-552. Germans officially advised to August 26 that Belgium refuses to accept 42,000,000 gold and Reichsbank will ship to New York for Reparation Account between fifty to sixty million gold marks August 27 or 29."

Yours very truly,

J. H. C.


Benjamin Strong, Esq.,
Governor, Federal Reserve Bank,
New York, N. Y.

August 27, 1931

CONFIDENTIAL

My dear Governor:

I agree for your further information in connection with German reparations payments the following statement from Mr. Jordan, received to-day:

through the State Department:
"The German Government is B-332. Germany officially has a balance on that account of 1,000,000,000 marks and 100,000,000 marks for reparations. The work for reparations is being done to the extent of 100,000,000 marks and 100,000,000 marks." 
CONFIDENTIAL
GOVERNOR'S SEC.

Yours very truly,

Benjamin Strong, Esq.,
Governor, Federal Reserve Bank,
New York, N. Y.

C-797

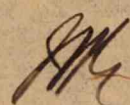
RECEIVED
AUG 30 1921
FEDERAL RESERVE BANK
OF NEW YORK

August 29, 1921.

Dear Mr. Gilbert:

I acknowledge with thanks receipt of your letters of August 26 and 27 quoting for our confidential information two cablegrams received from Mr. Boyden in connection with German Reparation payments.

Very truly yours,



J. H. CASE
Deputy Governor.

Honorable S. P. Gilbert, Jr.,
Under Secretary of the Treasury,
Washington, D. C.

JEC/ELS