C O P Y

(COPY EMC-SS)
Comp-

UNITED STATES UNOFFICIAL DELEGATION
REPARATION COMMISSION

September 1, 1921.

Dear Mr. Secretary:

On August 18th Herr Bergmann advised me that he was in receipt of advice from Berlin that the full milliard would be paid before August 31st without the necessity of drawing on any Reichsbank metal reserve. This was cabled to you the same day (our B-548). Notwithstanding this information, as appears from my subsequent cables to you (B-549 and B-554), 83,000,000 marks real gold had been shipped to the United States; 80,000,000, Herr Bergmann's office now informs us, was drawn by the German Government from other sources. This was due, according to Herr von Oertzen, Herr Bergmann's assistant, to an unfavorable change in the market of foreign bills, which was aggravated very much because the Belgian Government insisted upon payments being effectuated in a few well-defined currencies - Belgian francs, pounds sterling, dollars, and to a limited extent French and Swiss francs, although the German Government had available a considerable quantity of Dutch florins, Scandinavian crowns, and Swiss and French Francs.

The Belgian representative on the Finance Service of the Reparation Commission explains the refusal to accept the 300,000,000 French Francs offered by the Germans as due to a typographical error by which the figure "3,000,000" French Francs which the Belgian Treasury agreed to accept was reported to the Germans as 300,000,000. Subsequently the Belgians did agree to accept 62,500,000 French Francs on the understanding that Germany would buy back a part of them in exchange for European currencies more acceptable to Belgium. He further explained that the Belgian Treasury could not accept other European currencies and insisted upon the shipment of gold because the Belgian balance of trade with Great Britain and the United States was unfavorable, creating a demand for sterling and dollar exchange, so that it was desirable to secure sterling and dollar values without market transactions, which would lead to the further depreciation of the Belgian franc.

It is apparent, however, that the Belgian refusal to accept French francs and insist upon gold was due to a desire to protect French francs as well as Belgian francs from further depreciation.

It

It is suggested that the foregoing letter may be of interest to the Treasury Department and Federal Reserve.

Faithfully yours,

JOHN A. ~~LYNCH~~
LOGAN, Jr.

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

JAMES A. LOGAN Jr.

PERSONAL

Paris, 18 rue de Tilsitt.
10 September 1921.

My dear Ben,

I have your letter of August 30th and am very glad that you find the matter which I have sent you of interest. I enclose herewith, for your confidential information, viz:

FIRST.- Copy of Annex 1071a, dated September 5, 1921, which is a tabular statement showing the details of the payments made by the German Government in execution of Article 5 of the Schedule of Payments.

SECOND.- Copy of a Memorandum entitled "Comments on treatment of our foreign war loans in connection with the German Reparation Settlement". This latter document includes an Annex A which is a rough outlined scheme of re-adjustment of loans and Reparation Series "B" bonds prepared in accordance with the views expressed in the memorandum. Annex B is omitted as this is simply the Schedule of Payments, copy of which you already have.

This memorandum gives my views as to how the situation should be handled. I fully realise that any proposal contemplating the exchange of our demand notes for Reparation bonds is unpopular at home and, therefore, political exigencies alone may prevent any consideration being given my views. In all probability Mr. Mellon and Eliot Wadsworth have worked out a better plan. My scheme may, however, serve as basis for discussion and study. I have not the most recent data as to the position of our loans and, therefore, my figures are purely approximate. If my scheme be favorably considered, it might be possible to work in the "Costs of Armies of Occupation", and the "Belgian Debt, Article 232 of the Treaty" etc. on somewhat the same basis.

Our Allied friends are continuing to regard the position of their American loans with more and more mirth and they may have some objections to transferring "B" bonds, which they consider as having a substantial value, for their demand notes held by us at which they are apt to smile. Any objection they might raise on this account would demonstrate the seriousness with which they regard our loans.

It might be that our Government would be willing to accord such treatment as that proposed to certain of the Allied Powers and might be unwilling to accord similar treatment to others, as for example Great Britain. This is, of course, a question outside my competence but can

be readily adjusted under the suggested plan.

I am satisfied that sooner or later, during the approaching Disarmament Conference, the position of our foreign loans is bound to come up and may have to be used as an essential trading point. I think we should be prepared for this contingency and have some plan worked out beforehand which, while not of a disadvantageous character to us, would nevertheless meet the requirements of the situation. Our British and other Allied friends are certain to have such a plan formulated beforehand and past experience has shown that, if we are not prepared to meet this with a well considered alternative plan, we suffer. I have attempted to draft a plan to obviate the usual "suffering" process.

As stated in the memorandum I have also endeavored to work out the scheme so as to reserve our special position of influence which I am confident we would entirely surrender if we converted our foreign loans in long term paper without any consideration of the Reparation settlement. In other words, we should treat our loans with more respect than do our debtors.

I sent this memorandum in a personal letter to Fletcher and suggested that he show it to Eliot Wadsworth. In my letter of transmittal I wrote approximately what I have written to you in this letter. Fletcher or Eliot will probably speak to you about this matter but I believe it would be better if you do not indicate to them that you have received similar information from me.

I realize quite fully that my solution is only a piecemeal treatment of the question. However, in this whole matter we are faced with economic factors of such unknown consequences that I believe it advisable to approach the solution by echelons. While this plan might meet with some opposition from the Allies when first proposed, I am nevertheless satisfied that ultimately they would be glad to accept it. I would like however so much to have your personal and confidential views as to whether or not the proposed scheme is based on sound premises and if so whether it would be workable.

THIRD.- Copy of a letter dated 22 August which I sent to Mauclere, President of the Committee of Guarantees, together with copy of a note to the Minutes Service of the Committee of Guarantees, dated Sept. 2nd in which appears the statement that I have made at the meeting when my letter to Mauclere was under consideration. I had to handle the matter with a good deal of tact in view of the existing political situation. I was not therefore able to say all that I really felt. My endeavor was to force a business, rather than a political, treatment of the

German Reparation settlement. I personally feel that Germany for the next few years by deliveries in kind and payments in cash can meet Reparation payments to about 2 billion gold marks per year or, in other words, take care of the service of 12 billion Series "A" bonds and 22 billion Series "B" bonds. (The Schedule of Payments provides for an issue of 38 billion Series B bonds on November 1, 1921). I believe that within two or three years she can confortably carry additional "B" bonds. I would therefore like to see the Schedule of Payments amended so as to provide for taking as of November 1st 1921 "B" bonds only to the value of 22 billions and then echelining the issuing of the remaining 12 billion bonds ~~say~~ during the next years. I do not take the "C" bonds very seriously and it would take a brave and foolish Commission to say at any time within the next seven or eight years that Germany could carry any of these. However the latter represent an honest indebtedness of Germany to the Allies and the treatment in this particular accorded her by the Schedule of Payments is sound.

The Committee of Guarantees is leaving Paris for Berlin on the 20th to hear the Germans. I am going with them in my unofficial capacity and if I find the situation as I believe it to be today I am going to work for a solution along the lines above indicated. The present position I am satisfied is impossible. We have actually asked Germany to hand us cash and values before May 1, 1922, in the amount of 2,650 millions. As of September 1st she has paid on this account 1 billion in cash and 200 million by deliveries in kind. The working of the Loucheur-Rathenau Agreement will undoubtedly be delayed so we can only reasonably expect an additional 400 million as representing deliveries in kind up to May 1st and probably not to exceed 100 million coming through the working of the Recovery Acts, thus leaving Germany faced with a deficit of some 900,million to meet engagements up to May 1st 1922 alone. During the period May 1, 1922 to May 1, 1923, her obligations, in accordance with the present Schedule of Payments, will be in the neighborhood of 3,300 million. In other words an impossible situation during the next few years. Please don't conclude by the foregoing that I am mesmerized by Keynes for I am not. Keynes' trouble is that he is always about 125% correct.

Faithfully yours,

James A. Logan

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

C 797

THE UNDER SECRETARY OF THE TREASURY
WASHINGTON

September 20, 1921.

My dear Governor:

I enclose for your confidential information copies of paraphrases of two cablegrams from Mr. Boyden, dated August 25th and August 30th, 1921, as to the August 31st reparation payment. These cablegrams were only today brought to my attention, and I am sending them to you chiefly in order to complete your records.

Very truly yours,

S. D. Gilbert

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

2 enclosures

CABLE

B-552 PARIS

Refers to B-549 August 25, 1921

The total German payments of the milliards due on August 31 announced as of noon August 25 leaves the balance due 241,500,000 gold marks, for August 26 payments announced dollars 14,700,000; Belgian francs 25,000,000; sterling 2,000,000; of French francs 27,500,000.

On August 23 the Commission was officially advised by the Germans of shipment of 42,000,000 marks metal Reich Bank to Brussels for covering possible deficit after deliveries of Allied currencies completed. Advice as to actual shipment of this metal has not been received by Brussels. Further 42,000,000 marks in excess of German obligations if the other payments announced are effective. It is presumed announcement shipment metal precautionary steps part Germans in the event of a failure of any short term loans. See in this connection B-545 and 548.

Boyden

(Dictated over telephone by State Department HKW)
2 P.I., August 26th.

COPY

JEM

GREEN

Paris.

Dated August 30, 1921.

Rec'd 4:40 pm.

Secretary of State,

Washington, D.C.

528. August 30, 3 pm.

B-554. Reference our B-552 and B-553. German payments August 26, dollars 1,500,000; French francs 17,500,000; Belgian francs 25,000,000; pounds sterling 2,000,000. Total value these items 50,700,000 gold marks. Payments announced for August 29, dollars 2,250,000; French francs 62,500,000; Belgian francs 42,500,000; pounds sterling 750,000. Eight and one-half million gold marks and thirty million Austrian gold crowns valued 68,000,000 gold marks consigned New York August 26; 3,000,000 gold marks consigned New York today. Bills of lading to be delivered Belgium August 29. Final payments August 31, dollars 4,000,000; pounds sterling 75,000; Swiss francs 15,000,000. All above items for credit Belgium and complete first milliard under article five schedule payments. Boyden.

HERRICK.

C 797

September 22, 1921.

Dear Mr. Gilbert:

I acknowledge with thanks receipt of your letter of September 20 enclosing for our confidential information copies of paraphrases of two cablegrams from Mr. Boyden, dated August 25 and August 30, regarding Reparation payments.

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

ACKNOWLEDGED
SEP 28 1921
B. S.

September 26, 1921.

CONFIDENTIAL.

Dear Governor Strong:

I enclose for your confidential information copies of three letters dated August 22, August 29, and September 1, 1921, transmitted to the Department of State by Mr. James A. Logan, Jr., Assistant Unofficial Representative of the United States on the Reparation Commission, all with reference to the German reparation payments. It is particularly interesting to note the doubt expressed in well-informed quarters as to the ability of Germany to meet the conditions imposed by the schedule of reparation payments.

Very truly yours,

S. W. Fullerton Jr.

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

3 enclosures.

September 28, 1921.

Dear Mr. Gilbert:

The copies of the three letters transmitted to the Department of State by Mr. James A. Logan, Jr., under dates of August 22, 29 and September 1, bearing on the Reparation payments, were received in your letter of September 26.

This information we are pleased to have and shall treat it as most confidential.

Very truly yours,

Benj. Strong,
Governor.

Hon. S. P. Gilbert,
The Undersecretary of the Treasury,
Washington, D. C.

GB/MJM

PERSONAL AND
CONFIDENTIAL

September 29, 1921.

My dear Logie:

The enclosed is a copy of a letter which I am writing to the Under Secretary of the Treasury, which is inspired by the correspondence which you recently sent to Fletcher under date of August 29 and September 1.

It is merely an expression of my own personal views and represents no other views whatever and is not official. I have been intending to write you along this line for some time but have not had an opportunity to do so. I sincerely trust that the results of your efforts may be to bring some order out of this chaotic and thoroughly vicious situation.

Supplementing the enclosure and philosophizing a bit about conditions of the world just now, I hope you and your associates have just simple economic facts in mind. The development of the world and civilization has run parallel with the capacity of the people of the world and the different nations of the world to trade with each other. It is by such trade that standards of living rise, that education and social organization develop. A continuance of the present conditions in Germany, such conditions in fact as have reached their economic conclusions in Russia and are rapidly doing so in Austria, Poland and other parts of Central Europe, will have the effect of throwing each nation back upon its own economic resources, will reduce standards of living, will reduce opportunities for education and improvement, will give rise to instability in governments, and do more than anything else for the solidifying and crystallizing of public opinion in this country that we can have no traffic politically with Europe and will be able to have little traffic economically as these conditions develop and become accentuated.

Some courage will be needed somewhere to take the steps necessary to educate public opinion in Europe, especially in France.

If I were a member of the Reparation Commission, that thank Heavens I am not, I would insist upon some such programme as the above or quit, and make perfectly clear to the public why I had quit.

This is all sent to you very privately and personally and confidentially.

With best regards, I am,

Sincerely yours,

Col. John A. Logan, Jr.,
18 rue de Tilsitt,
Paris, France.

PERSONAL AND
CONFIDENTIAL

September 29, 1921.

Dear Mr. Gilbert:

Your favor of the 26th instant in relation to reparation payments and the various enclosures have been duly received and formal acknowledgment sent.

I should now like to make the following purely personal comments upon the contents of this correspondence and certain other material which we have received from time to time on the general subject of the scheme of making reparation payments by Germany.

Leaving out of consideration entirely the character of the payments to be made; that is, whether they are those stipulated by the London ultimatum, whether they are in settlement of the so-called clearing house balances, or to defray the cost of the armies of occupation and of the various commissions, it is a fact that the amount of these payments required to be made by Germany bear a definite relation to Germany's capacity to pay. In other words they are within Germany's means or they are beyond Germany's means to pay.

The disturbance of the world's commerce and finance resulting from the present disordered exchanges, is a plain indication to the world that Germany is being required to make payments beyond capacity, and that the whole world is liable to suffer in consequence. Such a situation is no less than monstrous, and influences should be brought to bear to insure that business men and their governments are protected against occurences which may well-nigh bring bankruptcy in some directions and cause almost insupportable losses and hardships in other directions.

My personal view of the present plan is roughly the following:

1. Germany's capacity to pay is measured by her production. To

the extent that her production can be of a character and quantity suitable to meet the obligations for reconstruction in France, that is to say, in such material as lumber, coal, steel, etc., and to the extent that it can be in the form of other materials which can be used by those countries to which the obligations are owing, that is to say, sugar, potash, pulp, wood, and the like, just to that extent payment in kind would relieve Germany and the rest of the world of a considerable part of the present disorder. This has been urged repeatedly, publicly and privately, and appears to have been recognized as inevitable as indicated in the agreement recently entered into between M. Loucheur and Herr Rathenau. This agreement, I understand, is now pending before the Reparations Commission.

2. Assuming that a large amount of reparation can be dealt with by deliveries in kind, the question then arises as to what is Germany's capacity to pay by credit or cash. Broadly speaking payment by credit is capable of being made in two ways:

(a) Out of the net proceeds of Germany's exports,

(b) Out of the proceeds of credits negotiable in foreign countries.

Payment in cash can only be effected by shipping gold.

Assuming that agreements are now possible of arrangement which will facilitate and increase deliveries in kind, it appears to me that the Reparation Commission will be open to severe censure by the public, and especially by those nations whose interests they are supposed to serve, if they permit an unorganized and uncontrolled attempt on the part of Germany to make payments in a spirit of desperation, the effect of which will be to wholly disorganize trade, financial and economic conditions throughout the world. The question arises as to how this may be avoided, and I think the answer is simple

and that the subject can be effectively dealt with.

If the allied governments or the Reparations Commission will set up an organization, not necessarily supervisory but certainly of a character to obtain the fullest possible information in regard to Germany's trade and Germany's need for raw material, etc., it should be possible to ascertain fairly accurately Germany's capacity to pay out of the proceeds of her foreign trade. Such an organization could very well direct its efforts to exercising a certain amount of supervision over the borrowings which Germany effects in foreign countries. Germany should not be permitted to attempt to make payments in excess of what this organization determines after careful investigation is possible to be made without evil consequences.

The necessary complement to such a provision is a more absolute control of Germanyexchange and exchange operations in foreign markets than now prevails. As I understand the situation there is practically no control at the present time of those German exporters and traders who accumulate foreign balances, making such disposition of the balances as they see fit and, of course, using such portion as they require for the purchase of raw material. The German Government might well set up an organization to determine just what raw materials should be imported. It seems to me that some such organization as we established during the war under the provision of the "Trading with the Enemy Act" by which every dealer in foreign exchange was required to secure a license from the Federal Reserve Board and was required to report all transactions in foreign currencies, and upon failure to do so was liable to fine and imprisonment, w could well be applied in Germany with good effect.

One of the vicious developments of the past few months has been an extraordinary speculation in German exchange which has, no doubt, greatly exaggerated the depreciation in the mark. We estimate at the Federal Reserve Bank

that the domestic purchasing power of the mark is probably double its purchasing power in foreign countries; that is to say, that the number of marks required to buy a given quantity of goods in Germany would only buy about one half of that amount when converted into dollars and applied to the purchase of similar goods in this country.

The reason why the speculation in marks has had such an exaggerated effect upon the value of the mark, in my opinion, arises from a circumstance which is unique in foreign exchange. Ordinarily the speculator who sold marks for future delivery and bought foreign currencies, would be obliged at some date in the future to buy back the marks and, in turn, to sell the foreign currencies. Such a speculation, either in foreign exchange or in commodities or in securities frequently has a stabilizing effect; that is to say, supplies exchange when the demand is excessive and absorbs exchange when the supply is excessive. The reason why the present situation is unique arises from the fact that the German Government is "short" of foreign currencies for such a vast amount that all covering transactions can be effected by selling to the German Government, which sits perfectly helpless in a position where it must absorb offerings of foreign currencies at any price and pay for them by issuing marks at a constantly lowering price. In other words, the stabilizing effect of the world's speculation in foreign currencies is entirely lost because Germany is in a position where she must buy from these speculators, no matter how high expressed in foreign currencies or how low expressed in the depreciated mark.

In summary of the above hastily dictated comments my suggestion would be -

1. That an arrangement must be made promptly for the enlargement of payment of reparation by direct shipment of materials,

2. That the Reparation Commission should take steps to authoritively ascertain what Germany's capacity to pay may be, measured by German foreign trade,

3. That the Reparation Commission should exercise some supervision over Germany's attempts to secure loans in foreign markets,

4. That the German Government necessarily under the supervision of the ReparationsCommission, should take steps to effect a more absolute control of all dealings in exchange by German citizens, whether individuals or corporations, and by any foreign dealers within Germany.

If some such plan could be developed to the extent which it has not already been developed, within the next six months, and in the meantime the payment next due be somewhat deferred or held in suspense, I believe the effect upon Germany's exchange would be instantaneous, and there might be some possibility of those who are demanding the impossible returning to their senses.

I hope you have no objection to my sending a copy of this communication to Col. Logan, who is a personal friend, to whom I am stating that this is no more than an expression of personal views and represents no other view whatever than my own.

Very truly yours,

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

BS/RAH

C 797

THE UNDER SECRETARY OF THE TREASURY

WASHINGTON

October 4, 1921.

My dear Governor:

I received and have read with great interest your personal and confidential letter of September 29, 1921, with regard to the German reparation payments. I think that you have the situation about right, and that consideration ought to be given to action along the lines you have indicated.

I have no objection at all to your sending a copy of your letter to Col. Logan. In fact I have already brought it to the attention of the Secretary and I think it would be worth while if copies could go also to the State Department and perhaps to several other people in Washington as, for example, Governor Harding and Eliot Wadsworth. If you have no objection, I should be glad to send them out, in a confidential way.

Very truly yours,

S. W. Gilbert

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

Gov.

PERSONAL AND CONFIDENTIAL October 3, 1921.

My dear Logie:

The pressure of various matters made it impossible for me to read the papers which accompanied your letter of September 10 until after I had dictated my letter to Mr. Gilbert yesterday, and my letter to you which accompanied a copy of that letter. This is rather striking because you will observe that, without having read your memorandum "to be inserted in the minutes of the Commission," I had arrived at almost identically the conclusion which you arrived at and suggested almost identically the same procedure that you suggested.

My letter to Mr. Gilbert and the one to you which accompanies it, commented as fully as required on certain features of the present situation, with the exception that it contained no reference to the baleful effect of violent fluctuations in exchange values upon our export trade. This has all occurred to you, no doubt, but I should like to have you consider the following:

First. All trade, and especially international trade, is subject to two major risks. One is the risk of decline in the market value of the goods between the time of purchase and the time of re-sale. The second is the risk of the goodness of the credit of the buyer in case the goods are sold on credit. In normal times these are the principal risks of trade, as one is able to insure against such other risks as fire, marine and transportation loss, defalcation, etc., etc.

Second. With the exchange market in its present chaotic condition we have a third major risk added to trade; namely, the risk of loss in exchange, and that risk exerts a strong restraint upon trade so long as rates of exchange

are not stabilized within dependable limits such as formerly existed when gold was being freely shipped; namely, within the so-called "gold shipping points."

As there is now no limitation to the possible fluctuation in rates of exchange, how does that affect the ability of a nation like ours with a surplus of production to export goods? I think it may be made clear by the following comments:

(a) The seller will always endeavor to place upon the buyer, and the buyer will likewise endeavor to place upon the seller the risk of exchange loss. Let us assume for the purpose of illustration that our position is now such that we can put all exchange risk upon the foreign buyers of our goods. That is naturally so with the exchange strongly in our favor.

(b) Our exporters secure insurance against loss in exchange by requiring foreign buyers to pay in American dollars instead of accepting payment in foreign currencies.

(c) If a foreign, say English, buyer contracts for our goods when sterling is at $3.70, and undertakes to pay at the end of three months in anticipation of making a 10% profit on the transaction, he will make no profit whatever in case sterling declined to $3.33 when he buys his dollars.

(d) Suppose the same English importer purchased the goods and paid cash for them when sterling was selling at the rate of $3.70 per pound, but some competitor buys these same goods at the same price and at the same rate of exchange, except that he buys on three months credit. The latter may have the good fortune to settle his three months credit at a time when sterling has advanced in value to say $4.07 a pound, in which case he can undersell the first purchaser by 10% and still make a 10% profit.

I am giving these illustrations to bring out the point that even if the world were able to pay cash for American goods there would still exist a speculative and hazardous situation which would tend to restrict trade, because the volume of trade depends for its existence upon reasonable certainty of profit and the elimination of the possibility of large speculative loss which cannot be "hedged" or guarded against. Wide fluctuations in exchange create a speculative and competitive situation which tends to contract trade.

Now, what influences our export trade most adversely is to have the general trend of exchange in our favor; that is to say, to have the premium on dollars constantly increasing, because under the influence of such conditions foreign buyers of our goods will only buy such amount as they can cover by immediate cash payment, fearing that the entire possible profit on their purchases will be wiped out by loss on exchange if they buy on credit. They cannot protect themselves against a competitor who has been more fortunate in buying when exchange is higher than when they bought. This leads me to the general conclusion that further desperate efforts by Germany to complete reparation payments at the present rate and volume will continue to exert a depressing effect upon all the exchanges, cause violent fluctuations and result in constantly increasing premiums upon the dollar, and consequently increasing restrictions upon our export trade. Further than that, as you seem to realize fully, we are placing our American market in constantly greater degree at the mercy of production from countries where depreciating exchange gives them increasing advantages in cost of production over our producers. We estimate, for instance, that the German mark to-day has more than double the buying power in Germany than it has in the United States. The effect of this will doubtless be a tendency to promote sentiment favoring constantly higher protective tariffs and that, in turn, will make it increasingly difficult for us to collect the allied debts. It may be that finance ministers abroad are looking upon their countries' indebtedness to us with a certain amount of mirth. If we permit the exchanges to continue their present course we must prepare ourselves to look with complacency upon the complete inability of Europe to pay us what is owing. I do not wonder at the mirth, with things going as at present.

In conclusion, a few words about the plan which you propose for the inter-Allied debt adjustments. This is most confidential.

The plan which you propose is almost identically the plan which I discussed with Colonel House and Lord Grey in 1919. I thought there was good sound

basis for it, and you must recall our having talked it over on more than one occasion. The facts are, however, that politically there seems to be a most determined opposition to any such programme, although I believe the opposition comes from a comparatively small, although quite influential, section of the Senate. It is not a matter on which my opinion is worth very much because I know little about the way these political matters develop here in Washington. I think you may conclude with assurance, however, that at the present time no such programme would have much hope of success either with the Administration or with the Congress; which does not mean that I should not like to see something constructive attempted, but that I simply regard it as out of the question at the moment.

My own view is, that with opinion as it now exists here, the best plan would be to bring about a more generous and modest scheme of reparation payments, and coincident with that a moderate and reasonably generous plan for deferring for the present repayment of the Allied debt and the interest on it. What is really needed here, however, is a thorough education of the public on this whole subject. The difficulty seems to lie in the fact that there are some men up at the Capitol who assume that any proposal for deferring or modifying, reducing or foregoing the debt is nothing less than a scheme of some designing bankers and capitalists to defeat the government in the collection of a just debt in order that private debts owing to citizens in this country and floated through American bankers may be collected. I believe that absurd charge has been privately discussed, although I have not seen it in the public press.

The chances are that in the course of the next month or two the whole subject will come up for discussion in the Senate when some better line may be obtained on the political sentiment at the Capitol.

Please hold this letter in strict confidence, although you may wish to show it, under equal protection of confidence, to Boyden.

My best regards to you.

Sincerely yours,

Colonel James A. Logan, Jr.,
18 rue de Tilsitt,
Paris, France.

THE UNDER SECRETARY OF THE TREASURY
WASHINGTON

ACKNOWLEDGED
OCT 10 1921

October 8, 1921. B. S.

CONFIDENTIAL

My dear Governor:

I enclose for your confidential information a copy of a paraphrase of a cablegram from Paris, dated October 6, 1921, which repeats several telegrams from Col. Logan at Berlin as to the German budget and the reparation payments, with particular reference to the German foreign exchange requirements.

Very truly yours,

S. W. Gilbert

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

1 enclosure.

(COPY)

VHL

Green

Paris

Dated October 6, 1921.

Recd. 11:13 P.M.

Secretary of State,

Washington, D. C.

578, October 6, 4 P.M. B-557.

At Logan's suggestion am repeating telegram from him at Berlin as follows:

October 3, 2 P.M. For Boyden number 1. Following German figures presented guarantee committee showing their budget fiscal year's April 1st, 1921, to March 31st, 1922 and their fiscal year same month's 1922 to 1923 all figures expressed paper marks unless otherwise indicated. (A). Budget 1921-1922 actual and anticipated receipts all sources estimated 48,500,000,000 may possible reach 60,000,000,000. On basis 48,500,000,000 following deficits foreseen. Ordinary expenditures 10,000,570,000; extraordinary and non-recurrent charges 27,000,600,000 including railroad and post deficit, cost construction miners dwelling, food subsidies, et cetera. Reparation payments 29,300,000,000 based on exchange rate 14 paper marks to one gold mark; clearing house; cost armies and, other peace charges 12,000,000,000 based on exchange rate 15 paper marks one gold mark. Total deficit 79,470,000,000. Assuming and calculating anticipated receipts at 60,000,000,000 and converting reparation, clearing office, armies and, costs, et cetera at to-day's exchange rate total deficit budget March 31st estimated at about 100,000,000,000 paper marks.

marks. (B). Budget 1922-1923. Ordinary expenditures 65,000,000,000, extraordinary and non-recurrent charges, railways posts, et cetera 18,600,000,000; reparation payments based on committee guarantees estimate of 3,300,000,000 gold marks calculated at one gold mark equals twenty paper marks, 66,000,000,000; armies occupation 11,600,000,000; other treaty charges clearing house, commissions, et cetera 12,000,000,000. Total expenditures 173,200,000,000. Germany's receipts according to their extimate will be 81,800,000,000. This figure represents increase of 9,500,000,000 paper marks over receipts 1921-1922 including customs and excise 19,700,000,000; taxes on property and transport 62,100,000,000. Deficit 90,900,000,000. Foregoing budgets being studied in detail by committee; certain items can and will be reduced. On the other hand under operations present schedule payments prospective requirements foreign exchange so great rendering impossible to make any forecast future gold value paper marks. Germans promise to explain shortly how deficits both budgets to be covered. They talk of internal and foreign loans and increased currency issues. In latter connection interesting to point out that during period March 31 August 31, 1921, treasury bills issue increased by 35,000,000,000 and bank note issue by 8,400,000,000. Logan. October 4, 10 A.M. For Boyden, number two. "Following German estimate their governmental requirements foreign exchange until May 1st, 1921 as at present seen by committee guarantees (figures expressed in gold marks)

(A). Outstanding payments account first billion, viz; Mendellsohns loan originally 270,000,000 of which 120,000,000 repaid since September first leaving 150,000,000. Loan raised by pawning Reichsbank silver

originally

VHL

originally 58,000,000 of which 18,000,000 silver metal sold outright leaving 40,000,000. Grain credits for which funds collected were applied to first billion 200,000,000. Total 390,000,000.

(B). Other public requirements until May 1, 1921, viz. further supplies gain representing 800,000 metric tons (in addition to 700,000 tons covered by 200,000,000 item above) 250,000,000. Loans contracted by Reichsbank with foreign banks during and after war now due 90,000,000. Clearing office advances 250,480,000. Various other treaty payments 100,075,000. Due under China peace conference at 3,007,000. Outstanding debts food purchases America, Norway and Holland 97,250,000. Payments due deliveries maize last year 54,500,000. Foreign Office expenses; internal revenue postal telegraph settlement, etc. 6,320,000. Total 854,000,000.

(C). Regarding requirements set forth (A) above Germans informed committee they endeavoring to extend due date Mendellsohn loan and silver loan.

(D). Regarding items in (B) committee questions its covering payments account past and prospective deliveries foods but generally accepts other figures. Figures obviously padded and with correction should reduce total 854,000,000 by at least thirty per cent.

Following is estimate total German requirements foreign exchange both governmental and reparation before May 1, 1921: (A). Repayments account first billion 390,000,000; (B) for governmental requirements at thirty per cent reduction from figures given by Germans 600,000,000; (C) balance reparation payments 1,018,900,000.

Total 2,008,900,000. Logan. "October 3, 3 P.M. For Boyden.

Number

VHL

Number three. Following German expose of their national trade balance for current reparation year presented committee guarantees. (All figures expressed gold marks unless otherwise indicated). One. German statement.

(A). Liability. Essential food costs 2,500,000,000. Essential imports raw material; home consumption; re-exports same variety; finishing trade and reparation purposes, 2,500,000,000. Imports manufactured articles unavoidable account international trade arrangements and including imports from Alsace Lorraine under treaty 750,000,000. Undesired imports (Rhineland) to date under economic sanctions 250,000,000. Germany's foreign debt (interest) detailed data submitted Brussels December 1920; debt, however increased as result deficit Germany's trade balance, 750,000,000. Reparation charge three milliard; clearing office, costs armies and various other treaty charges, 400,000,000. Total liabilities 10,150,000,000.

(B) Assets. German exports estimated on basis May June and July four milliard.

Germans estimate actual credits resulting from pending Loucheur-Rathenau agreement raising value deliveries in kind to one milliard. Total assets five milliards.

(C) Deficit 5,150,000,000.

(D) Under assets are following items not possible accurate estimation: (One. Receipts from claims Germans against foreigners outside clearing office settlements. Two. Various receipts, banking transactions, insurrance payments, accruing from freight on goods in transit and proceeds from traveling foreigners. German claim assets under one and two unimportant and offset by small debits each one shown under liabilities.

(E)

(E) Five milliard deficit includes estimate of deliveries in kind at one milliard which depends entirely on willingness of France if deliveries to amounts stated.

Two. Claims for observations German statement.

Objections placing value food and raw material imports at figure stated under liabilities and placing German exports at small figure stated under assets. Value deliveries in kind under most optimistic schedule will not reach figure stated by Germany this year and this particularly account continued depreciation of mark with resultant effect on gold mark values such deliveries. Exception taken to statements and conclusions paragraph (D) Unquestionably Germany's invisible balance accruing not only through sources mentioned but also ocean freight charges, various private transactions, etc; very much more substantial than admitted by Germans and generally assumed by outside economic and financial writers. Detailed study being made this phase. Logan. "October 4, 12 noon. For Boyden. Number 4.

From figures now before committee following is basis and estimate of amounts foreign exchange required exclusively for reparation payments due from Germany before May 1st, 1921 under operation present schedule payments. All figures expressed in gold marks.

(A) Due for current reparation year two billion fixed annuity plus two quarterly installments, variable, each at 273,000,000 or estimated 546,000,000 (value actual exports first quarter this reparation year months May, June and July ten fifty million of which twenty-six per cent or two seventy-three million due November 15), total therefore twenty-five forty six million.

HL

(B) Estimated that Germany will have following credits foregoing account this current reparation year, viz, one billion under which cash fifty million conservative figure receipts under recovery act five hundred million conservative figure. value deliveries kind (no allowance made these calculations for possible credits accrue this reparation year through Loucheur Rathenau agreement) total credits above fifteen fifty million from which receipts recovery act and value deliveries kind last half month April estimated 22 point 9 million automatically deducted and credited on May 15th variable installment of next December reparation year account. Net credit ..... current reparation year therefore 1527 point 1 million.

(C) 2546 million (A) minus 1527 point 1 million (B) leaves total of 1018 point 9 million which must be forthcoming in foreign exchange from Germany this reparations year.

(D) Based on above estimates and assumption that payments variable installment February 15th same November 15th and flow receipts recovery acts and credits deliveries kind remain constant Germany will have to finance and pay foreign exchange under schedule payments engaged to, viz. November 15th zero payable as recovery act and value deliveries kind will more than offset variable installment due. January 15th 383.4 million February 15th 227.1 million April 15th 408.4 million, total 1018.9 million.

(E) Present instructions committee to Germany contemplate two monthly advances of one thousand each putting in due dates for payment variable annuities on February 15th and May 15th. Believe such system advances unworkable and that instructions will be amended so as to only require payments

ments on schedule due dates. In remote contingency such amendment not being made schedule given "D" above subject slight rearrangement figure shown February 15th and prior dates and to increase amount due after February 15th.

(F) At the request of Germany and with a view to steadying exchange in the present highly speculative market, committee issued communique announcing that value anticipated deliveries in kind plus receipts recovery act would offset any cash payment due from Germany November 15th under schedule. Logan.

WSB HERRICK.

October 10, 1921.

CONFIDENTIAL

Dear Mr. Gilbert:

I thank you for your letter of October 8, enclosing for our confidential information copy of paraphrase of a cablegram from Paris, dated October 6, 1921, which repeats several telegrams from Colonel Logan at Berlin as to the German budget and the reparation payments, with particular reference to the German foreign exchange requirements.

Yours very truly,

Benj. Strong,
Governor.

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

GB:MM

C797

UNITED STATES UNOFFICIAL DELEGATION
REPARATION COMMISSION

18 rue de Tilsitt,
Paris, October 15, 1921.

Personal and Confidential.

Hon. Benjamin Strong,
Governor New York Federal Reserve Bank,
New York.

My dear Ben,

I have just returned from Berlin and find your two most interesting letters awaiting me. In accordance with your ~~wishes~~ request, I have turned them over to Mr. Boyden who is now studying them. He is very much interested in having your views. I have onlyhad a chance so far to read them superficially so I will wait for a few days and until I have a chance to study them, before replying.

I am enclosing for your personal and confidential information, copies of five telegrams which I sent from Berlin to Mr. Boyden and which he has transmitted to the State Department. I also enclose a copy of "Memorandum containing views of Mr. Logan, Unofficial American Representative, Committee of Guarantees' dated October 11, 1921. This I have filed as a formal position of record. I believe it will interest you and I hope it will accomplish some good.

I had some difficulty in forcing the Committee to make a formal report to the Reparation Commission. The length of the entire intestinal tract of my dear colleagues is about eight inches, rather than the thirty-three feet as usually estimated in the guts of the ordinary individual. Unfortunately, "due to a shortage of typists" (?) the final draft of the report was not ready for signature before we left Berlin, though the contents and arrangement of the report had met with unanimous approval of the Committee. I was afraid that upon our return to Paris, my colleagues might have a change of heart and would refuse to sign the report. I therefore felt it necessary to tie my memorandum up with the report so as to force the latter to the light of day. This accounts for the matter contained in the third paragraph of my memorandum.

The Belgian Delegate, Mr. Bemelmans, supported me right through. I wrote the original draft report myself, but in view of my unofficial capacity, let Mr. Bemelmans submit it as his handywork, thus putting me in the position where I could subsequently draw the conclusions I have stated in my memorandum. Is not the whole situation most absurd and fantastic?

Hastily but faithfully yours,

John A. Logan Jr.

L-S
Enclosures.

AMERICAN EMBASSY PARIS

COPY OF TELEGRAM RECEIVED

Received 9 AM
OCTOBER 4, 1921

41

Berlin, October 3, 1921.

CONFIDENTIAL

AMEMBASSY
PARIS

41 October 3/2 PM

For Boyden. No. 1. Following German figures presented Guarantee Committee showing their budget fiscal year April 1,1921,to March 31,1922, and their fiscal year same months 1922 to 1923. All figures expressed paper marks unless otherwise indicated.

(a) Budget 1921-1922: Actual and anticipated receipts all sources estimated forty-eight milliard five hundred million, may possibly reach sixty milliard. On basis forty-eight milliard five hundred million following deficits foreseen. Ordinary expenditures ten milliard five hundred and seventy million; extraordinary and nonrecurrent charges twenty-seven milliard six hundred million including railroad and post deficit,cost construction miners dwellings,food subsidies,etc. Reparation payments twenty-nine milliard three hundred million based on exchange rate fourteen paper marks to one gold mark;clearing house cost Armies Occupation,other peace charges, twelve milliard based on exchange rate fifteen paper marks one gold mark. Total deficit seventy-nine milliard four hundred and seventy million. Assuming and calculating anticipated receipts at sixty milliard and converting reparation, clearing office,Armies Occupation,costs, etc. at today's exchange rate total deficit budget March 31 estimated about one hundred milliard paper marks.

(B) Budget 1922-1923. Ordinary expenditures sixty-five milliard, extraordinary and non-recurrent charges railways, posts, etc., eighteen milliard six hundred million; reparation payments based on Committee Guarantee estimate of three milliard three hundred million gold marks calculated at one gold mark equals twenty paper marks sixty-six milliards; Armies Occupation eleven milliard six hundred million; other Treaty charges, clearing house, commission, etc., twelve milliard. Total expenditures one hundred seventy-three milliard two hundred million. Germany's receipts according to their estimate will be eighty-one milliard eight hundred millions. This figure represents increase of forty-three milliard five hundred million paper marks over receipts 1921-1922, including customs and excise nineteen milliard seven hundred million, taxes on property and transport sixty-two millard one hundred million. Fiscal year ninety milliard nine hundred million. Foregoing budgets being studied in detail by Committeel certain items can and will be reduced. On the other hand under operation present schedule payments prospective requirements foreign exchange so great rendering impossible to make any forecast future gold value paper marks. German promise to explain shortly how deficits both budgets to be covered. They talk of internal and foreign loans and increased currency issues. In latter connection interesting to point out that during period March 31 August 31, 1921, Treasury bills issue increased by thirty-five milliard and bank note issue by eight milliard four hundred million.

LOGAN

DRESEL

GWR/GLF/WH

Sent Mr. Boyden October 4 1921

American Embassy, Paris

Copy of Telegram

Received 3 pm
October 4 1921

RECEIVED

42 CONFIDENTIAL

Berlin October 3, 1921

AMEMBASSY
PARIS

42 October 3/3 PM

For Boyden. No. 3. Following German expose of their national trade balance for current reparation year presented Committee Guarantees. (All figures expressed gold marks unless otherwise indicated).

1. German statement:

(a) Liabilities. Essential food imports two milliard five hundred million. Essential imports raw material: home consumptions; reexports same variety; finishing trade and reparation purposes two millard five hundred million. Imports manufactured articles unavoidable account international trade arrangements and including imports from Alsace Lorraine under treaty seven hundred fifty million. Undesired imports (Rhineland) to date under economic sanctions two hundred fifty millions. Germany's foreign debt (interest) detailed data submitted Brussels December, 1920; debt, however, increased as result deficit Germany's trade balance, seven hundred fifty million. Reparation charge three millard; clearing office, costs

Armies Occupation and various other treaty charges four hundred million. Total liabilities ten millard one hundred fifty million.

(b) Assets. German exports estimated on basis May, June and July four millard.

Germans estimate actual credits resulting from pending Loucheir-Rechenau agreement raising value deliveries in kind to one millard. Total assets five millard.

(c) Deficit five millard one hundred fifty millions.

(d) Under assets are following items not possible accurate estimation: (1) Receipts from claims Germans against foreigners outside clearing office settlements. (2) Various receipts, banking transactions, insurance payments, accruing from freight on goods in transit and proceeds from travelling foreigners; German claim assets under 1 & 2 unimportant and offset by small debits not shown under liabilities.

(e) Five millard deficit includes estimate of deliveries in kind at one millard which depends entirely on willingness of France to recompense deliveries to amounts stated.

2: Committee observations German statement.

Objections placing value food and raw material imports at figure stated under liabilities and placing German exports at small figure stated under assets. Value deliveries in kind under most optimistic schedule will not reach figure stated by Germans this year and this particularly account continued depreciation paper mark with resultant

effect on gold mark values such deliveries. Exception taken to statements and conclusions Paragraph D. Unquestionably Germany's invisible balance securing not only through sources mentioned but also ocean freight charges, various private transactions, etc., very much more substantial than admitted by Germans and generally assumed by outside economic and financial writers. Detailed study being made this phase. LOGAN

DRESEL

WH

Sent Mr Boyden October 4 1921

Copy of telegram received 9 AM October 4 1921

Berlin, October 4, 1921

AMEMBASSY
PARIS

CONFIDENTIAL

43 October 4/10 AM

For Boyden. No. 2. Following German estimate their governmental requirements foreign exchange until May 1, 1921, as at present seen by Committee Guarantees (figures expressed in gold marks).

(a) Outstanding payments account first billion viz: Mendellsohns loan originally two hundred and seventy million of which one hundred twenty million repaid since September 1, leaving one hundred fifty million. Loan raised by pawning Reichsbank silver originally fifty eight million of which eighteen million silver metal sold outright leaving forty million. Grain credits for which funds collected were applied to first billion two hundred million. Total three hundred ninety million.

(b) Other public requirements until May 1, 1921, viz: Further supplies grain representing eight hundred thousand metric tons (in addition to seven hundred thousand tons covered by two hundred million item above) two hundred fifty million. Loans contracted by Reichsbank with foreign banks during and after war now due ninety millions. Clearing office advances two hundred fifty million four hundred eighty thousand. Various other treaty payments one hundred million seventy five thousand. Due under China peace conference three million seven thousand. Outstanding debts food purchases America, Norway and Holland ninety seven million two hundred fifty thousand. Payments due deliveries maize last year fifty four

million five hundred thousand. Foreign office expenses: International postal telegraph settlements, etc., six million three hundred twenty thousand. Total eight hundred fifty four million.

(6) Regarding requirements set forth A above Germans informed Committee they endeavoring to extend due date Mendellsohn loan and silver loan.

(d) Regarding items 3-B Committee questions items covering payments account past and prospective deliveries foodstuffs but generally accepts other figures. Figures obviously padded and with correction should reduce total eight hundred fifty four million by at least thirty per cent.

Following is estimate total German requirements foreign exchange both governmental and reparation before May 1, 1921, (a) Repayments account first billion three hundred ninety million. (b) For governmental requirements at thirty per cent reduction from figures given by Germans six hundred million. (c) Balance reparation payments one billion eighteen million nine hundred thousand.

Total two billion eight million nine hundred thousand.

LOGAN

DRESEL

GWR/WH

Sent Mr Boyden October 5 1921

Copy of Telegram Received 9 AM October 5, 1921.

Berlin, October 4, 1921

AMEMBASSY
PARIS

CONFIDENTIAL

44 October 4/12 AM

For Boyden. No. 4. From figures now before committee following is basis and estimate of amounts foreign exchange required exclusively for reparation payments due from Germany before May 1, 1921, under operation present schedule payments. All figures expressed in gold marks.

(a) Due for current reparation year two billion fixed annuity plus two quarterly installments variable each at two seventy three million or estimated total of five forty six million (Value actual exports first quarter this reparation year months May, June and July ten fifty million of which twenty six per cent or two seventy three million due November 15) total therefore twenty five forty six million.

(b) Estimated that Germany will have following credits foregoing account 13th instant current reparation year viz: one billion ultimatum cash fifty million conservative figure receipts under recovery act five hundred million conservative figure value deliveries kind (no allowance made these calculations for possible credits accruing this reparation year through Loucheur-Rathenau agreement) total credits above fifteen fifty million from which receipts receovery act and value deliveries kind last half month April estimated twenty two point nine million automatically deducted and credited on May 15 variable installment of next reparation year account.

Net credit current reparation year therefore fifteen twenty seven point one million.

(c) Twenty five forty six million (a) minus fifteen twenty seven point one million (b) leaves total of ten eighteen point nine million which must be forthcoming in foreign exchange from Germany this reparation year.

(d) Based on above estimates and assumption that payment variable installment February 15 same as November 15 and receipts receovery acts and credits deliveries kind remain constant Germany will have to finance and pay foreign exchange under schedule payments engaged to viz: November 15 zero, as receipts recovery act and value deliveries kind will more than offset variable installment due. January 15 three hundred eighty three point four million February 15, two twenty seven point one millions April 15, four hundred eight point four million total ten eighteen point nine million.

(e) Present instructions committee to Germany contemplate two monthly advances of one third each prior to due dates for payment variable annuities on February 15 and May 15. Believe such system advances unworkable and that instructions will be amended so as to only require payments on schedule due dates. In remote contingency such amendment not being made schedule given "D" above subject slight rearrangement figures shown February 15 and prior dates and to increase amount due after February 15.

(f) At the request of Germans and with a view to steadying exchange in the present highly speculative market committee issued communique announcing that value anticipated deliveries in

kind plus receipts recovery act would offset any cash payment due from Germans November 15 under schedule. LOGAN

DRESEL

GLF/WH

Sent Mr. Boyden October 5 1921.

COPY - MD

Green

Paris,

Dated October 14, 1921.

Recd. 11:50 p.m.

Secretary of State,
Washington.

595, October 14, 7 p.m.

B-572. Following telegram received from Logan, Berlin.

"45, October 12, 4 p.m. For Boyden. Number 5. Final Report Committee now preparing for commission practically comprises figures and pictures situation given my telegrams No. 1, 2, 3 and 4, October 3rd viz:

First. (a) Estimated deficit 1921 - 1922 budget 118 million (billion ?) paper marks, treaty and other foreign expenditures based on 30 paper marks equal one gold mark today's rate.

(b) Estimated deficit 1922 - 1923 budget 138 billion paper marks including receipts for new taxation proposed by government to Reichstag and assuming certain items of external expenditures now carried on budget aggregating between ten and fifteen billion paper marks to be cut off in accordance with views of committee.

Second. Reference my telegram No. 2. Germans figure estimated requirements foreign exchange until May 1st, 1922, reduced to one billion gold marks plus one billion four hundred eighty million gold marks account treaty commitments or total requirements two billion four eighty million. In other words approximately three fifty million gold marks per month October to May 1st, 1922, must be found by Germans or ten billion five million paper marks per month at today's rate of exchange. If present plans German Government contemplating making issue export licenses contingent upon exporter placing foreign bills at the disposal of government, and if given estimate of receipts this source of 85 million gold marks be allocated monthly requirements gold marks automatically reduced to 265 million gold marks or seven billion nine hundred fifty million paper marks at today's exchange rate.

Third. Reference my telegram number 3. Committee estimates deficit under German national trade balance at four billion gold marks instead of five billion one fifty million as stated by Germans.

Fourth. Reference my telegram No. 4. Committee in letter October 10th to the German Government drew attention to provisional character certain figures and conclusions set forth in its note number one to

Germans on July 28, 1921, and particularly to provisional character latter conclusions that payment under schedule probably assured by assignment customs only from November fifteenth and first payment under 25 per cent levy exports only on December 15th and that assignment other resources as security probably not necessary this reparation year.

Committee then pointed out insufficiency of deliveries in kind and depreciation of necessitated increase in revenues by taxation to be assigned as security for payments in currency. Committee then states "admitted diminution exports during the year 1921 - 22 will reduce variable instalments due November 15th and February 15th to 275 million gold marks. Thus Germany's obligation current reparation year 2250 million gold marks. To the latter sum necessary to add two monthly instalments as security payments variable due May 15th estimated at 275 millions, viz: 91.7 millions each on March 15th and April 15th or total 183.4 million gold marks. Grand total therefore due from Germany before May 1st, 1922, is 2,733,000,000. As compared this obligation following credits admitted, viz: (in gold marks) 1,500,000,000 deliveries in kind 50,000,000 recovery act or total 1,550,000,000 gold marks thus leaving balance 1,183,000,000 gold marks to be met from the resources specified article seven schedule.

In view of this foreseen deficit following funds could be assigned, viz, (a), customs receipts including import duties for remaining half year or at two billion nine hundred fifty-eight point eight million paper marks which at exchange rate thirty to one equals 98 million gold marks, (b), levy on exports; figure 275 gold marks per quarter adopted as variable assumes annual exports at 4230 million gold marks. A levy of 25 per cent on which would give approximately 1,050,000,000 from which recovery act receipts of 50,000,000 deducted leaving approximate total of one billion marks. The yield therefore this source next six months 500 million gold marks. Total resources therefore set aside as guarantee under terms paragraph A and B Article 7 schedule and to be placed disposition of committee 598,000,000 gold marks. There remain 585,000,000 gold marks corresponding to 17,550,000,000 paper marks rate one to thirty to be guaranteed by additional sources revenue under terms paragraph C Article 7. It appears likely that (?) taxes law set aside by German Government June last as security payment will yield monthly approximately 1,532,000,000 paper marks. Assuming that revenues these taxes actually deposited as guarantee payment as from October 15th, 1921, and further that total revenue so deposited which moreover contrary to views committee, as per latter's letter of August 19th, it would only be possible to reckon on this approximately 9,790,000,000 paper marks for today until April 15th. There would still remain deficit 7,760,000,000 paper marks or 258.7 gold paper according which Germany obliged to offer committee other revenues as guarantee of payment".

Fifth. Committee October 11th met Wirth asking for definite commitment on his part as to specific guarantees covering prospective deficits German reparation payments. Wirth replied that government weak and apt

to fall any time not only on account of reparation settlement but primarily on account of disquieting reports of Upper Silesian decision. Wirth admitted only solution he saw reparation settlement was proceeds of large long term industrial gold loan subscribed by Germans also Dutch, Swiss, Scandinavian, British and American bankers. Have heard various estimates of amount proposed loan generally about 200,000,000 dollars. Personally think hope optimistic. On demand committee Wirth definitely agreed to devote entire proceeds any industrial loan to reparation payments, in other words effects of loan only results in postponing date Germany's default and therefore speculative and without real constructive purpose.

Today Germans requested special consideration advances on instalments due January 15th of 500,000,000 gold marks less 90,000,000 estimated value deliveries kind and proceeds recovery act or 410,000,000. Monthly guaranteed payments beginning November 15th. Provisions Article 7 schedule require, (a), proceeds customs and import duties estimated sixteen one-half million gold marks; (b), 25 per cent levy value exports estimated 90,000,000 gold marks. Germans state they can secure any foreign currencies not to exceed sixteen and one-half million gold marks per month pending conclusion loan negotiations above mentioned. Committee refused to seriously consider German proposal but offered to accept sixteen and one-half millions November 15th and postpone first payment 25 per cent levy to December 1st when Germans hope to know result negotiations. Germans claim payments foreign currencies required under Article 7 would drive mark exchange down to 200 to the dollar and break all negotiations and plans looking to compliance reparation program.

Under Committee's demands advance payments of guaranteed funds will approximate following: November 15th sixteen and one-half millions, December 1st ninety millions, December 15th one hundred and six and one-half millions, January 15th one hundred and six and one-half millions plus ninety millions gold marks uncovered balance.

Foregoing also does not cover any advance payments that may be later demanded by committee account variable instalment 275 million minus value one month's deliveries in kind and recovery act due February 15th sixth obvious to all. Continued application existing schedule payments impossible and in German present position breaking point apparently matter few weeks though may be delayed if industrial loan succeeds. Allies apparently basing great hopes latter loan, some with view to immediate division spoils, others on hope that loan would relive pressure on Germany for few months and thus all considered better counsel to effect changes in schedule. While committee by its letter to Germans have taken formal stand under schedule due political pressure from Japan, they have nevertheless not pushed German position further than providing partial guarantee for January instalment advising Germans that "a further communication will be made as to guarantees required to cover existing deficit this year". In unofficial capacity have taken position that our inquiries here have proved conclusively that present schedule payments absolutely

unworkable and that further efforts to enforce its provisions can only jeopardize amount total reparation values Germany able pay Allies, and that obvious duty committee is to so report to commission. Unable to get committee to adopt this view but they have consented to make report unanimously of existing German situation to commission on practically identical lines with matter contained in my previous reports to you. This action in effect puts the question of amendment schedule up to commission. Suggest this be transmitted to Department. Logan, Dresel", Boyden.

HERRICK

MISC. 4. 1-120 M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

C797

OFFICE CORRESPONDENCE

DATE Nov. 3, 1921 192

TO Mr. Snyder

SUBJECT:

FROM Governor Strong

10/15/21

Attached is an exceedingly confidential communication from Paris, which I wish you would be good enough to study, without showing it to anyone else. After studying it, I think you will be convinced that it will be interesting and illuminating for us to know something about the German trade of the last year, and the possibility of its being a source of supply of foreign exchange. If the contents of the enclosures of Mr. Logan's letter can be briefly digested and summarized, together with something of the trade figures, it would be helpful. I am obliged to have this back for my confidential files as no one else is supposed to see them.

BS:MM
Enc.

CONFIDENTIAL

Berlin, 11 October 1921.

MEMORANDUM containing views of Mr. Logan, Unofficial American Representative, Committee of Guarantees.

During the meeting of the Guarantee Committee this morning I felt it incumbent upon me to state my views on the possibility of Germany's fulfilment of the conditions of the Schedule of Payments and on the responsabilities and duties of the Committee of Guarantees connected therewith.

Although I fully appreciate the special situation of my Government in this regard, I nevertheless desire to make my position of record so as to obviate all possibility of misunderstanding.

During this morning's session the Committee considered the very able draft report prepared by Mr. Bemelmans for submission by the Committee to the Reparation Commission. I regret that due to the shortage of personnel it was impossible to type the re-draft as adopted by the Committee and to transmit it to the Reparation Commission before we left Berlin. It will be remembered that Mr. Bemelmans' draft was adopted subject to the re-arrangement of certain chapters and to minor changes in verbiage. The figures stated and the method of calculation used in the report were approved by the Committee. I, of course, understand that the last two or three paragraphs of the draft report concerning a recommendation by the Committee to the Reparation Commission as to the advisability of the latter going to Berlin did not meet with unanimous approval and is subject to modification.

The report of the Committee admits a deficit in the German Budget 1921-1922 of approximately 100 milliard paper marks. A somewhat increased deficit is admitted for the Budget 1922-1923. In calculating these deficits, budgetary items of gold expenditure have been estimated on the basis of 50 paper marks equal 1 gold mark, which is extremely optimistic in view of the present movement of paper mark value. Certain just and proper criticisms have been made by the Committee on items of

both Receipts and Expenditures shown in the two Budgets. I agree that receipts from taxation during the present and next fiscal years should be more substantial than contemplated by the German Government. I also agree that considerable curtailment of expenditures during the same period is possible. However assuming for sake of argument that Germany could by a revised system of taxation increase Receipts in both of its two Budgets by 40 milliard paper marks and at the same time by economies in national Expenditures each year decrease her outlays by 40 milliard, there would still remain deficits in each year of upwards of 20 milliard paper marks. Even from a most optimistic point of view I really doubt whether any member on the Committee of Guarantees would frankly maintain that the figures for reduction of expenses and for increased receipts mentioned above are within the realms of probability.

Turning next to the question of the National Financial Balance of Germany. Professor Hirsch in his memorandum (Annex C.G. 88) states the current annual liabilities of Germany at 10,150 million gold marks, its assets at 5 milliard gold marks with a figure of 5,150 million gold marks as Germany's deficit under this heading. I am satisfied that Germany's invisible balance is more substantial than generally assumed or estimated by the Germans. I am, therefore, in accord with the conclusions reached in the report on this question, viz. to estimate the deficit at approximately 4 milliard gold marks. For the sake of argument I am willing to assume a further substantial reduction but I, nevertheless, maintain that so long as there remains any substantial deficit, Germany is unable to meet the present heavy Treaty charges in gold marks.

According to the Committee's report, Germany must find and pay before May 1, 1922, foreign values sufficient to meet the following obligations:

a)	on account of application of the present Schedule of payments	1030+1180 million gold marks
b)	charges on account Costs of Armies of Occupation, expenses of Commissions of Control, etc.	300 " " " (a very conservative estimate).

c) outstanding obligations on account advances made to meet payments before August 31, 1921, on One Milliard "ultimatum cash" ..... 390 million gold marks

d) Other public requirements including purchase of essential foodstuffs, clearing office transactions, payments due to France in virtue of Alsace-Lorraine Agreement, etc. stated by Germans at 854 million but reduced by Committee's estimate to ..... 610 million " "

Total ... 2330 - 2480 million g.m.

In other words approximately 350 million gold marks or 10,500 million paper marks (30 p.m. = 1 g.m.) per month during the seven months from October 1921 to 1st May 1922, must be forthcoming from Germany if the latter is to meet its obligations prior to May 1st 1922. It appears unnecessary to comment upon either the possibility or the probability of any such sum of foreign exchange being forthcoming during this short period.

A survey of the facts as developped by the report of Committee's investigation in Berlin, as set forth in brief above, makes any expectation of Germany's being able to comply with the terms of the existing Schedule of Payments appear unreasonable and fantastic. Expectations as to the value of deliveries in kind have not been realized and even under the most favorable working of the proposed Loucheur-Rathenau Agreement it is obvious that Germany for the next few years cannot meet the requirements as at present laid down in the Schedule of Payments. If the real value of Reparation equity is to be protected an amendment to or a revision of the Schedule of Payments must be effected with the minimum of delay.

I am convinced that the advantages to be derived through the so-called "industrial loan" which was so much discussed at Berlin are greatly exaggerated. Its effect as a palliative in the present situation would be constructive were it understood that it would be followed by the amendment of the Schedule of Payments necessary to bring the annual Reparation charges down to a figure Germany could pay. Rather than a curative it is, in my opinion, worthless and indeed harmful under present conditions. It is generally admitted that any such a loan must be of such a substantial amount

as to require participation not only by German industry but also by participation by financial interests outside Germany. I hold the opinion that conservative foreign cooperation is improbable in view of the unworkable conditions now imposed upon Germany under the Schedule of Payments. If such a loan can be floated in the foreign speculative markets it must necessarily be of long term and if possible at a reasonable rate of interest. Past experience however has shown that foreign monies are only forthcoming by the payment of excessive rates of interest and the ear-marking of assets to a value far in excess of the total amount of the loan. Assuming a large loan with a high interest rate, the position, as I see it, would be the following. We would first have a substantial sum to be applied to the Service of the bonds, the effects of which would be superficially advantageous. Then, sometime next year and the years thereafter we would be faced with releasing from Reparation charges very considerable values of foreign exchange necessary in meeting the high interest and amortization charges on account of the loan. I am convinced that we would also find a great part of the best assets ear-marked on account of this loan and thus protected rendered unavailable as a further Reparation source.

All of the foregoing in my view constitutes a clear and convincing reason for the immediate modification of the existing Schedule of Payments so as to reduce the annual demands on Germany to an amount which she will be able to meet.

In the foregoing I have endeavored to approach the situation from a purely practical point of view and have made no effort to go into the broader economic features of the present situation which are apparent to all. I fully appreciate the political difficulties which face the various Powers represented on this Committee but sincerely hope that in their own interest such a solution may be arrived at as will result in according a business treatment to the Reparation question and thus assure the greatest returns to the Reparation beneficiaries.

JAMES A. LOGAN, Jr.,

days.

***

Called from his duties in private life to head the ministry of munitions Dec. 15, 1916, he brought with him that personal force, experience and ability to get results which had stamped him as one of the world's greatest industrial leaders and as one of history's great war ministers.

When the need for munitions disappeared, M. Loucheur was found representing France at the peace conference with all its connected and incident complex negotiations.

He is one of the comparatively few prominent figures who, having entered public service during the war, has been chosen to help pilot France through the shoals of peace.

To enumerate here the results he has obtained in posts of trust he has filled would be to repeat what are matters of public record. It is sufficient to congratulate France on having chosen for this great work of reconstruction, which has the sympathy not only of her allies but of the whole world, a man of the sound common sense and tireless energy of M. Louis Loucheur.

M. Loucheur was born at Roubaix in 1873. He left the Compagnie des Chemins de fer du Nord where he was employed to study electricity at the Ecole Polytechnique.

He spent fifteen years developing the industry of electricity and hydro-electricity. His indefatigable energy led him at the same time to build roads in Turkey and the Balkan states, particularly Serbia.

***

During the war he organized large munitions, works and plants which turned out material for heavy artillery. At the time of the ministerial reshuffle of Dec. 12, 1916, he became under secretary of state for munitions. In this capacity, he exhibited such wonderful organizing power that M. Ribot asked him to retain office in his cabinet. When M. Painleve assumed the premiership of France, M. Loucheur succeeded M. Albert Thomas as minister of munitions.

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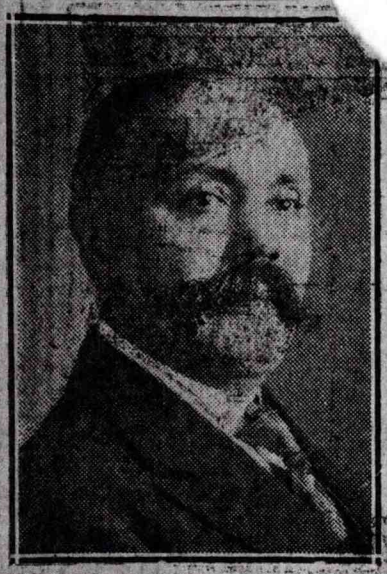
M. Clemenceau, after having maintained him in this post, entrusted him at armistice time with the portfolio of industrial reconstruction.

One of the French plenipotentiaries at the peace conference, he took foremost part in the debates ultimately became minister of liberated [illegible]ons. Many kee[illegible] servers th[illegible]nk M. Loucheur i[illegible] to perform further great [illegible] friends compare him wi[illegible] Like it, they say, his [illegible] partly developed. He [illegible] having been born at Ro[illegible]

Mi[illegible] of Liberated [illegible]



Mr. James A. Logan, Jr., to-day introduces to The Tribune readers M. Louis Loucheur, French minister of the liberated regions.

BY JAMES A. LOGAN, JR.

Following on the armistice of November 11, 1918, there began a stage in the history of France which held promise of difficulties and dangers equal to those which had been overcome during the four preceding years.

To revert to war idioms, it might be said that France, under a head cover of armistice terms, had before it the task of consolidating its new positions.

This consolidation meant more than the drawing up of treaties with ex-enemy powers and the settling of accounts with friends. It meant reorganization, industrially and socially at home and the enormous undertaking of reconstruction.

***

Reconstruction, when speaking of France, has a special meaning. It means the material regeneration of great areas rendered unproductive wholly or in part, agriculturally, industrially and commercially and the moral rehabilitation of populations rendered shelterless.

It is when one understands the vital interest this problem of reconstruction is to France that one realizes what confidence it has placed in M. Louis Loucheur in making him minister of the liberated regions, and it is only after having had the opportunity and privilege of judging M. Loucheur by pesonal contact that one understands how fortunate France is in counting him among its sons dur-

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C797

UNITED STATES UNOFFICIAL DELEGATION
REPARATION COMMISSION

Paris, 18 rue de Tilsitt.
3 November 1921.

PERSONAL AND CONFIDENTIAL.

My dear Ben,

I enclose, for your confidential information, copy of the report of the Committee of Guarantees to the Reparation Commission concerning the general German position vis à vis the Schedule of Payments. It was quite a struggle to force the report up to the Reparation Commission, and while it contains much matter with political coloring, it is nevertheless a pretty good paper. I do not personally agree with all the conclusions but I was forced to soft paddle my own desires in the matter. Included in the report you will find a copy of my "personal" views which should amuse you as I have stolen a great deal of your thunder which I propose treating as if it emanated from my own little brain.

The Reparation Commission itself is going to Berlin within a few days to look over the situation itself. This is the direct result of the report and cannot help but have a good effect. It was a hard struggle for Boyden to get the Commission to agree to go, but he accomplished this in that quiet and effective way of his.

Loucheur to-day asked me to stop in his office which I did. He intimated confidentially that he held about the same views as I hold concerning Germany's ability to pay, but that the internal French politidal situation was extremely difficult and that it would therefore take considerable education of the people to see the situation as it is and thus permit the Government to follow a sane policy in this question. I am going to take lunch with Loucheur in a day or two and will keep working on him. After we had finished the German question, Loucheur referred to the Central European situation stating that, in his opinion, unless help was forthcoming within the next few months the biggest financial crash of history was bound to arrive. He told me, under the seal of confidence, that he intended to leave France within the next few weeks for America to see if some help could not be made forthcoming in our country. I suspect that he is really going over to replace Mr. Briand on the Disarmament Conference and hopes that the scope of that Conference will be broaden so as to permit consideration of the various outstanding international financial questions. Naturally I kept my mouth shut. While I don't altogether trust my good friend Loucheur, he is unquestionably the widest awake member of the present Government.

I enclose herewith a clipping from the Chicago Tribune in which I rendered my tribute to Loucheur. He is very susceptible to such attentions.

To return to the German situation, it is quite clear that Germany will not be able to meet her January 15th payment of the "fixed instalment" and if something is not done before-hand she will be forced into default at that date. Under the present arrangement two advances on this fixed instalment have been requested by the Committee of Guarantees, the 1st on November 15th of 16 million gold marks - this Germany can pay; the 2nd on December 1st of 91 million gold marks, which she will not be able to pay in full. It will therefore be optional with the Governments, if they don't change the Schedule of Payments, to force Germany in default on December 1st or to wait until January 15th. I hope our Allied friends will see the light.

Faithfully yours,

JAL/BD
Incls.

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

P.S.- You will notice a slight difference in the budget deficits as forecasted in copies of cables which I sent you in my letter of October 15th, and those now stated in the report of the Committee of Guarantees. These differences are not essential. As a matter of fact with the present ratio in value between the paper and the gold mark, the prospective deficits are higher than stated in my cables.

C797

November 3, 1921.

Dear Logie:

I am working on a reply to your letter of October 15, which contained some very interesting and illuminating information, and really deserves some study.

I think your memorandum, which is one of the enclosures, is fine, and expresses so much my own view that I envy you the opportunity of having prepared it, and at least secured its submission to the record.

With this I am enclosing a rather pathetic appeal from some one in Austria, who seems to be in dire need, but wholly unknown to me. Possibly you would be willing to pass it along to your representative in Vienna, and if it is a needy case invest a reasonable number of dollars in relief for me, and let me know how much I should send to reimburse you.

Very confidentially, I just received a telephone call from Dan Wing, President of the First National Bank of Boston, who is a friend of Boyden's, advising that Bergmann has been there, after a recent visit to Washington, and has laid before him (Wing) a program for borrowing a considerable sum from the banks in this country to enable efforts to be made to stabilize the fluctuation in the value of the mark; the idea being, as I caught it, to get the Reparations Commission to agree that repayment of this loan will anticipate further payments on Reparation Account.

Offhand, I am very skeptical of the possibility of anything like stabilization of German exchange. The reasons for my holding this view are too long to express in a brief letter, and you may not anticipate a further letter after I have had a talk with Mr. Bergmann. It seems important that

you should be advised of this, and that it is treated with the confidence that it requires.

Another reaent development is Vanderlip's arrangement with the Austrian Government to send a delegation here to discuss some adjustment of the Austrian debt to the Grain Corporation, along the line of the plan proposed last May for Austrian rehabilitation under the protection of the League of Nations. This visit would be rather inopportune, and I have some reason to believe that it has been stopped, but am not yet sure. If you have any information on the subject, I should appreciate it.

There is just a remote chance that I may have to be abroad within the next six months, and being posted, by your courtesy, from time to time about what is transpiring over there, would enable me to have a much more intelligent discussion of these matters with you and with Boyden if I do go over; hence my appreciation of your letters and their enclosures.

With best regards to you both,

Yours sincerely,

Colonel James A. Logan, Jr.,
18 rue de Tilsitt,
Paris, France.

BS:MM
Enc.

C797

November 4, 1921.

Dear Sir:

Referring to our telephone conversation of to-day, Mr. Carl Bergmann called upon me this morning to explain the plan for a German loan in this country, which I understand he has already discussed with you and with other members of the Federal Reserve Board. He tells me that it has also been explained to the Secretary of the Treasury, and to Messrs. Deering, Baldwin and Young of the Department of State.

Mr. Bergmann for two years or more was the representative of the German Government in Paris associated with the work of the Reparation Commission. He has now resigned that position, and I gather is in this country inthe interest of the German Government. He brought a letter of introduction from Mr. Boyden, unofficial representative of our Government on the Reparations Commission, addressed to Mr. D. G. Wing, of the First National Bank of Boston, which Mr. Wing informs me was satisfactory as to Mr. Bergmann's character and responsibility.

In brief, Mr. Bergmann's plan contemplates that the German Government shall borrow, say $50 millions in this country for the purpose of stabilizing the value of marks expressed in dollars, and if possible restoring it to what he regards as the equivalent of its domestic buying value, say to 1 1/2 to 2 cents per mark. He proposes, as one plan, that the loan should be made upon the obligation of the German Government, payable six months hence, in gold, if not otherwise paid in American currency, and that the assurance of repayment shall be afforded by an undertaking on the part of the Reparations Commission that its payment shall take priority over reparation payments. This loan would be in anticipation of a domestic long-time loan made in Germany of a much larger amount, which would be payable, principal and interest, in "gold marks"; this means, of course, that it shall be repaid in paper marks at the equivalent of dollar exchange values.

This domestic issue of bonds would be paid for by subscribers in foreign currencies, in dollars to the extent that dollars are now held by German nationals, and in other exchanges which the German Government would, at least in part, convert into dollars, if required, for repayment of the $50 million loan negotiated in this country. It is his opinion that very large amounts of foreign currencies are now held in Germany which cannot be dislodged or made available for the German Government for reparation payments so long as the mark is declining and so long as the present panicky feeling prevails as to the ultimate value of the German currency. He expects that his government may induce large subscriptions to such an issue of bonds, partly by the rise in the value of the mark, resulting from the American loan, and partly by offering certain tax exemptions upon the gold mark loan, principally those relating to the present inheritance tax and income tax.

It is my belief that the only basis upon which such a loan could be placed in this country would be upon an express request by the Reparations Commission, or at least upon their authority, with the necessary subordination of reparation payments to the repayment of this loan. Were such action taken by the Reparations Commission it is possible that a loan of some size, possibly even $50 millions, could be placed with, and through, our banks and bankers, and the effect might be substantially that which Mr. Bergmann expresses.

There are three ways in which a loan of this character could be effected:

One would be directly by the bankers of the country, without intervention on the part of the Federal Reserve Bank; the second would be by an arrangement actually promoted and iniated by the Federal Reserve Bank, but without any participation on the part of the latter; and the third possible method would be for the Federal Reserve Bank to appoint the Reichbank its agent and correspondent in Germany, and make the loan direct to the Reichbank, taking commercial bills of suitable amount from time to time to represent the amount loaned, and having the loan supported by a guaranty or obligation of the German Government.

As to the first method; I very much doubt whether Mr. Bergmann, unaided, would be successful in interesting American bankers. As to the second method; it is possible that certain of our leading bankers would join in placing such a loan, provided it was understood to be agreeable to our government that it should be done and that the necessary commitments might be made by the Reparations Commission. This, however, is a personal opinion, without support or expressions from our bankers themselves. As to the third method; there would be little difficulty in arranging the details and making the loan, but I am somewhat impressed by the possibility of criticism of the Federal Reserve System's undertaking business of that character at the present time.

On the whole, it would appear to me to have an important and favorable sentimental effect upon the exchange situation, and generally upon the reestablishment of international relations between this country and Germany.

This bank would not feel justified in undertaking to promote such a transaction on any of the three bases described, except it first received the assent of our government and an indication that it would not be disapproved, if the terms and conditions were satisfactory, by the Federal Reserve Board.

Anticipating the possible need for dispatching a cable to Mr. Boyden before an answer is possible to this inquiry, I have taken the liberty of drafting a suggested form of dispatch, which is enclosed herewith.

It is now generally understood that the crisis in Germany is a critical one, and that it may lead to more or less serious consequences unless this scramble for foreign currencies is arrested by some plan which will allay apprehension there.

Respectfully,

Benj. Strong,
Governor.

Honorable W. P. G. Harding,
Governor, Federal Reserve Board,
Washington, D. C.

BS:MM
Encs.

Outline of Cable

Bergmann proposes a six months $50 million loan by German Government payable in gold if not otherwise met for purpose of stabilizing mark exchange and if possible restoring to what he claims is domestic value of mark somewhere from the equivalent of 1 1/2 to 2 cents. Suggests that assurance of repayment of loan at maturity shall be afforded by agreement of Reparations Commission that such payment shall take precedence over reparation payments in form and manner to be determined. Proposes that within six months German Government shall issue a domestic long-time loan payable, principal and interest in gold marks, figuring paper mark at equivalent of dollar exchange value, such bonds to be afforded complete exemption from inheritance tax and partial exemption from income tax. Believes these exemptions together with advance in mark resulting from placing of American loan will lead to large accumulation of foreign currencies by German Government, as subscriptions for bonds will be made payable in dollars or equivalent of dollars in other foreign exchanges. Matter has been referred to Federal Reserve Bank of New York for investigation prior to which they desire some indication of possible attitude of Reparations Commission regarding proposed subordination.

C797

FEDERAL RESERVE BOARD

WASHINGTON

OFFICE OF THE GOVERNOR

November 5, 1921.

Dear Governor Strong:

I have received your letter regarding Mr. Bergmann's call and referred it to Secretary Mellon who seems to be considerably interested, and I assume from what he says that he will discuss the matter with the President and the Secretary of State. During the course of my conversation with Mr. Mellon this morning he asked if it would be possible to have the Bank of England and the Naederlandsche Bank take participations in case the Federal Reserve Bank of New York went into the matter. I assume from what he said that he thinks it would be a good idea to let the matter be handled by a group of American banks, but he appears to feel that the participation of some central banks may be necessary in order to get them in. The Secretary will discuss the matter further with me some time next week and I will keep you advised of any developments at this end.

Very truly yours,

Governor.

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

C797

November 7, 1921.

Dear Governor Harding:

Replying to your favor of the 5th instant, it appears from all that we read in the newspapers, and from other sources of information, that conditions in Germany are now becoming really desperate. It may be that this is no concern of ours, and that the outcome of recent developments will make any transaction of the character suggested by Mr. Bergmann wholly inadvisable.

On the other hand, the time is approaching, in my opinion, when participation by this country, either officially or unofficially, in the situation in Europe may become imperative if our export trade is to be protected and maintained.

It will be helpful to have some indication of the attitude of the officers of our government as promptly as possible.

Yours very truly,

Benj. Strong,
Governor.

Honorable W. P. G. Harding,
Governor, Federal Reserve Board,
Washington, D. C.

BS:MM

OFFICE CORRESPONDENCE

DATE Nov. 7, 1921

TO Mr. Jay

SUBJECT: German Reparations Payments in August

FROM Mr. Carl Snyder

I have just been able to obtain from one of the participants a confidential account of how the money for the German reparations payments, due last August 30, was obtained.

The amount to be paid was one thousand million gold marks, or approximately $243,000,000. Of this the Reichsbank had been able to accumulate in exchange, up to the end of July, only to the amount of about $60,000,000, leaving something like $185,000,000 to be raised. This was done through loans in various centres. Something like $20,000,000 was obtained here, the five participating firms being the Equitable Trust, Speyer, Boissevain, Hallgarten, and Goldman, Sachs. Part of the security was the Reichsbank's silver.

Another loan for about £5,000,000 was obtained in London from four or five participating parties; the same way with a loan for about 40,000,000 Swiss francs in Switzerland, or about $8,000,000; another loan made by Mendelssohn & Son through Dr. Mannheim, in Holland. This with what additional exchange the Reichsbank was able to accumulate up to the end of August, made up to about $65,000,000, requiring the balance of about $125,000,000 of the Reichsbank's gold. Some of this gold, by the way, is still being received.

These loans were of short date, running from August 15 to the first of October. On the first of October the Reichsbank had been able to accumulate only a very small amount of exchange and had to ask for an extension of most of the loans for another six weeks. In these six weeks they have been able to secure enough so that the American loans, at least, will be paid off on the 8th. It is of interest to note that even the large Paris banks were sounded, and that they said they would be glad to participate except for the political difficulty that lay in the fact that practically all of these payments was to go to Belgium and England, and almost none to France, but that on the next payments they would be in a receptive mood.

It was also stated definitely that the Reichsbank, which means the German Government, had not been selling marks below .80, which is a point of extreme interest.

The security for these loans, outside of the Reichsbank's silver, was Reichsbank notes, kept good to within 10 per cent. of exchange value. This means that the increase in the Reichsbank's circulation has not gone into the open market, but has simply been used to increase the security required on these loans. Apparently, from my informant, the collapse of the mark has not been due to foreign selling by the German Government. If this be true, it seems to me that it renders the situation far more difficult than it has otherwise seemed.

OFFICE CORRESPONDENCE

DATE Nov. 7, 1921

TO Mr. Jay

SUBJECT German Reparations Payments

FROM Mr. Carl Snyder

in August

If the selling of marks has been wholly from the outside, then practically nothing that the German Government could do directly would have saved the situation or will help it now.

I should add that my informant is a German of 26 years' banking experience in London, and now two years here in New York. I was very much struck with the fact that when I talked with him about the general situation six weeks or so ago he seemed to be in a fairly optimistic mood, while now he regards the situation as very dark and feels that unless something can be done a violent uprising or even a revolution might result. He feels that the manufacturers cannot go on under the present conditions, and that if they should shut their factories it would precipitate a worker revolution. Yet he is not in the least of the alarmist type.

UNITED STATES UNOFFICIAL DELEGATION
REPARATION COMMISSION

Paris, 18 rue de Tilsitt.
7 November 1921.

PERSONAL & CONFIDENTIAL.

My dear Ben,

In one of your recent letters you made some reference to the Clearing Office question. For your personal information I am enclosing herewith C.G. Document No. 144 which is a German ex-parte statement of the operation and results of this clearing system.

While it is somewhat colored in tone, I nevertheless believe it to be a substantially accurate portrayal of the existing situation.

Faithfully yours,

John A. Logan

JAL/BD
1 incl.

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

ASSISTANT SECRETARY

TREASURY DEPARTMENT

Washington,

November 14, 1921.

ACKNOWLEDGED
NOV 15 1921
B. S.

Dear Ben:

I find in looking over the files that you have never received a copy of cable B-572 of October 14 from Boyden. I am, therefore, enclosing a copy for your confidential information. You will note that this embodies a telegram from Logan in Berlin and relates to the Budget of Germany for the years 1921 and 1922, and 1922 and 1923.

Always yours,

Elliot Wadsworth

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

Enclosure.

November 15, 1921.

Dear Eliot:

Thank you for your note of the 14th instant, enclosing dispatches from Boyden. I shall write to you about them as soon as I have opportunity to study them.

A little later, I am going to take the liberty of addressing to the Treasury a brief discussion of some features of the economic situation in Europe, further developments of which, I believe, will have a serious reaction in this country, and hope that they may receive consideration by both the Secretary of the Treasury and the Secretary of State.

Yours sincerely,

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

BS:MM

c797

ASSISTANT SECRETARY

ACKNOWLEDGED
NOV 26 1921

TREASURY DEPARTMENT

Washington,

November 18, 1921.

Dear Ben:

I have your letter of the 15th and shall be much interested in reading the communication which you propose to address to the Treasury. In this connection, the following cable received from Boyden in confidence will be interesting.

> "Pursuant to suggestion of finance conference August 13th article six reparation commission invites governments including United States to nominate representative national bank of issue to form committee to consider measures to prevent Germany's reparation payments causing fluctuations in exchange. Committee to consider advisability of inviting German representative. Governments to nominate representatives as soon as possible. Suggest consulting Federal Reserve. Believe it important United States be represented."

Governor Harding is away but will be back shortly and we will talk with him. Meanwhile, I have talked with the State Department very informally. They are so busy, however, just at the moment, that it is almost impossible to get their minds on anything of this sort. I hope to be able to have a conference about it a little later. How does the plan strike you?

Sincerely yours,

Leo Wadsworth

Assistant Secretary.

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

November 18, 1921.

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Sincerely yours,

Assistant Secretary.

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

ASSISTANT SECRETARY

TREASURY DEPARTMENT

Washington,

Ack'd 26 BS. C797

November 19, 1921.

Dear Ben:

The following is another cable received by the Secretary of State, relative to the appointment of a representative of the Federal Reserve on a Commission to consider technical financial measures:

"Finance service Reparation Commission specially requests appointment representative federal reserve and recommends commission request committee consider technical financial measures: (A) Prevent German reparation payments disturbing international exchange; (B) Reduce risk of loss on exchange while such payments administered by commission; (C) Secure that maximum foreign resources Germany made available for reparation and generally advise Commission as to financial conditions for and probable financial effects of accumulation transfer cash from Germany as contemplated schedule payments."

Always yours,

Ew

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

C-797

PRIVATE November 26, 1921.

Dear Waddy:

Replying to yours of the 18th and 19th, I am sorry to be laid up for a few days and unable to send you the promised statement on reparation matters. As soon as I am back at the office I can write you fully; meantime may I make these suggestions:

There are a number of courses which our Government may follow in response to this suggestion; they are, in inverse order of merit, probably the following:

(a) To decline the invitation, which might be satisfactory to those who fear any form of European commitment or entanglement, but in the long run would not be in our own interest.

(b) Send or authorize the attendance of an unofficial adviser. His influence would be impaired by his position or lack of position.

(c) Send an official representative, which might be a source of some political irritation at the Capital, but is what we should do, unless, still better, we are willing to.

(d) join in a conference to deal with the whole subject of reparation, allied debt, foreign exchange and all economic matters. If the present conference is a success, and leaves good feeling in the air, plan (d) would accomplish something, I should think, and help to bring some of Europe to ways of common sense.

In case of such a conference, it would be essential for our Government to make a simple preliminary and private declaration to the other nations, with caution, on certain points, i.e.

1. We cannot finance the world while it indulges in wholesale inflation.

2. We will adjust and defer debts but cannot cancel without limit.

3. German reparation must be dealt with decently.

4. They must quit printing paper money, tax their people and put their budgets in balance.

The danger of such a conference is that it might be the forum for promoting every scheme of every visionary to regenerate the world with our money, and make enemies of our friends when we decline. A good preliminary platform would or should cure this.

But in any event let's get some one over there who is competent to help!

Yours sincerely,

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

BS:MM

JAMES A. LOGAN Jr.

Paris, 18 rue de Tilsitt.
28 November 1921.

PERSONAL & CONFIDENTIAL

11/22/21 - attached

My dear Ben,

With Boyden's permission, I am enclosing herewith copy of a personal letter he sent to one of his family in America concerning the recent trip of the Reparation Commission to Berlin. It is one of the very best exposés I have seen on the present Reparation problem and I believe it will interest you.

In my opinion Reparation bonds of Series C never have been and never will be worth anything. On the other hand, I doubt if public opinion, in France particularly, would allow any consideration today of the question of their cancellation. The possibility of the ultimate issue of C bonds prejudices the value of the A and B bonds, this phase is extremely well presented in Boyden's letter. Were the C bonds out of the way, Germany could work out her interest and amortization payments on the A and B bonds. She would have to be given delay or other help in meeting immediate payments but this would only be a matter of a couple of years during which time she should be forced into making an honest effort to balance her budget. At the same time the Allies should wholeheartedly endeavor to aid German exchange difficulties by accepting substantial deliveries in kind and other modes of payment not requiring the purchase of foreign monies with the paper mark.

I believe the desired goal, i.e., cancellation of the C bonds, cannot be reached at one jump. Boyden, I am sure, holds the same view. The question therefore is: What is the practical step to be taken within the next few months so as to ward off an actual default on the part of Germany?

Fundamentally, forcing Germany to borrow foreign monies for immediate payment on reparation account constitutes an admission, on the part of those forcing such a measure that the payment demanded is in excess of Germany's capacity as contemplated by the Treaty. This statement is not altogether incontrovertible but basicly is sound. As explained in Boyden's letter, the Commission, or in other words the various Governments, feel that the political exigencies of the situation require Germany to make the most earnest effort to meet her January 15th and February 15th payments, under the Schedule of Payments, by resorting to a short term loan forced by the German Government through the medium

of German industrials. The ulterior motive held by all the Allies except France is that it would demonstrate Germany's good intentions. It is admitted that the re-payment by the German Government of such a short term loan would have to be given priority over future reparation payments by the Reparation Commission. However it is believed by all except France that this will convince the French as to the necessity of a revision in the Schedule of Payments, as it will be obviously impossible for Germany to meet both the re-payment of the short term loan plus reparation instalments due during the period of the short term loan.

Most of us are convinced that Germany will not meet the January 15th payment. In this latter event the Commission itself will be forced to a decision under paragraph c, Article 13, Annex II of Part VIII of the Treaty and co-related articles. Under these Treaty provisions, the Commission itself by a majority vote can postpone totally or partially all payments of instalments falling due between May 1, 1921 and the end of 1926 inclusive, up to but not beyond the end of 1930. Neither the British nor the Belgians want a default. The British tell us confidentially that the Italians will follow them. Therefore, if the question arises on or before January 15th of Germany's default, there is evidence that there will be a majority of 3 to 1 against the French in favor of postponing payments of instalments.

Faithfully yours,

James A. Logan Jr.

JAL/BD
1 incl.

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

CONFIDENTIAL

18 Rue de Tilsitt, Paris.
22d November, 1921.

~~Here is a letter from Ted to Kate, giving the best [illegible] heard about Denise. It is encouraging. Kate wrote her that she would go over to England and come back to Paris with her if she could like to have her. Can you think of the Channel you can see to what heights Kate's spirit of self-sacrifice soared.~~

The Commission returned yesterday from Berlin. It was the first trip of the Commission there, though it ought not to have been, and I hope it will not be the last. It is very important that the men dealing with these things should know each other, and get down to some basis of frankness. Partly because of conditions, partly because it was the first trip, it was not a tremendous success. Wirth did not, as he should have done, take advantage of the opportunity to impress at least his own determination and good-will upon the Commission. He confined himself to carefully prepared, brief statements even when the Commission tried to give him a chance to be frank by demanding an interview with him alone. We all got the impression that he was afraid even of the members of his own cabinet and did not dare to say anything which had not been agreed upon in advance. The conditions of German politics probably account for this, but it was unfortunate, for it was easy for anyone inclined that way to get an impression of vacilation and lack of good faith even on his part.

The discussions were confined wholly to the January and February payments, which the Commission was unanimous in insisting ought to be made, and which I think Wirth and the most sensible of the Industrials also believed ought to be made. In the first place, there is an impression apparently pretty well founded that a very considerable amount of German capital has found its way abroad and would be available if its owners were properly ready to support the Government in paying the indemnity. Though this capital, whatever its amount is, has gone abroad partly in the form of legitimate operating foreign balances for financing export business, and ought not to be regarded as available for reparations, nevertheless the general impression is that there is a great deal not included in this category. But the fact is that this remaining capital, which might properly be regarded as available for reparations, has been exported for the express purpose of avoiding taxes, reparations and the anticipated fall of the mark, and the people who have done this naturally do not propose to disclose or to give it up voluntarily, and no one has yet suggested a practical method for forcing it out of them.

The policy of insisting on the January and February payments met my approval, and was a unanimous policy. Of course, some based this policy on the belief that Germany could pay her obligations in full, and that this being the fact it was absurd to have any doubts about the January and February payments. Others, believing that Germany could not possibly meet her obligations, or perhaps believing that there was a chance that she might meet them if she were granted something in the way of a moratorium to enable her to fix up her budget and get in better shape to proceed with reparations, nevertheless believed that it was unwise to have the crisis brought on at once by an immediate default, and that it was better to provide even at great sacrifice for the January and February payments to give time for consideration and discussion, to have Germany meanwhile show her good faith by going to the extreme limits of possibility, and to show that they themselves and their Governments, before urging a revision or moratorium, had gone to the extreme limit of practical pressure.

Whether Germany will get the loan necessary for the January and February payments even if she makes a most honest endeavor to do so may be regarded as somewhat doubtful. English bankers have made a somewhat authoritative statement to the effect that under present conditions they did not propose to subscribe money to be used for reparations, and that they even proposed, because of present conditions, to curtail their ordinary credits to Germany, apparently believing that a continuance of the present obligations of the Schedule of Payments and pressure for their fulfillment must inevitably have the result of making unsafe all credit to Germany. I am rather inclined to think that the chances are that, by the use of foreign resources and some credit, the payments will be made, but I have not any solid foundation for hope, which is based mostly on the theory that both Germany and English and other Allied bankers and neutral bankers will finally come to the conclusion that in some way this comparatively small and temporary loan can be made safe, and is, for the reasons stated above, the best method of approaching revision or a moratorium.

When the indemnity was fixed at $32,000,000,000, which, under the conditions of the Treaty, was certainly a reasonable valuation of the damage, and when the Schedule of Payments was adopted which settled the fixed annuity at two milliards of gold marks, and the variable annuity at twenty-six per cent of German exports, I had no doubt that it was wise for Germany to accept the decisions. It was the best she could get, and it was up to her to show good-will and hope that the Allies would be sensible if events proved that the annuity (fixed and variable) was too high. My personal opinion was that it was too high, but I could not regard it as a certainty and had hopes that it might prove not to be. I have no doubt now.

Probably you have read Keynes' articles which have appeared in the London Times, and I suppose also in the Manchester Guardian, in which he discussed the Schedule of Payments and its probable working, and predicted a default by Germany some time next year. Without expressing agreement with all he said, nevertheless the broad lines of the way in which the Schedule of Payments would operate, its relation to Germany's exports,

and its repercussion on Germany's budget, were certainly sound and were also expressed in language which one not a trained economist can readily understand. We see here a good many studies on the same line from the inside and from the outside of the Commission, and whether they are optimistic or pessimistic, they, combined with the financial history of Germany since May, and particularly the course of the mark, have, as I have said, removed my doubt.

One hears a good deal of a conspiracy on Germany's part to force revision by allowing herself to drift into voluntary bankruptcy. Perhaps there are a few Germans who would regard this as sound policy, but I see not the least indication that it is either a national or a governmental policy. In fact, I got rather a definite impression when I was in Berlin that everybody there who had any sense regarded the fall of the mark as a calamity, even if it and accompanying conditions did lead to revision. But the fact is that the important causes which have led to the fall of the mark are obvious, and there is no need of searching for a cause so far-fetched as a definite German conspiracy to this end.

Germany has not done her best to meet her obligations. This bald statement of a real fact might mean so many things, and the most unfavorable interpretation of it might lead to such drastic action, that it needs definition.

What is her best? The ideal would be a united national effort, based on the recognition that the payment of the indemnity is the one supreme issue. Political differences, like other hindrances to united effort, would be discarded. Everything would be subordinated to work and sacrifice, production and economy, both governmental and private. Slackers would be as unpopular as in war. In short, we should have a supreme national effort comparable to the war effort of a nation enthusiastic for war.

I pause a moment to mention that I am far from supposing such an ideal to be practically possible. But it is easiest to define Germany's "best" by describing the ideal, and then saying that Germany's best is the nearest approach to that ideal which is practically possible in the absence of so effective an incentive as war enthusiasm. Her "best" is x per cent of the 100 per cent ideal.

She has fallen far short of her best. War weariness; some underfeeding; reaction after the long strain; the new eight-hour law; inefficiency of labor; difficulty in transforming former civilians from soldiers to artisans; still greater difficulty in transferring former soldiers to useful employment; lack of raw materials and money and credit to buy them; loss of territory and resources; loss of her merchant marine; adjustment to new economic relations; you can add at your pleasure to this incomplete list of difficulties, of which some are peculiar to Germany and others are naturally worse with vanquished than with victors.

The change from autocracy to democracy, whatever may be its present or future good, is for the present a great handicap to united effort and to effectiveness. It would be so anywhere and is peculiarly so in Germany, partly because of the habit of looking to some supreme authority for guidance, partly because the States, always jealous of Prussia, are not really national in spirit, partly because there is a strong minority, formerly in control, which does not believe in democracy. They can't be efficient for they are learning; the administrators are new to administration. Their politics are a mixed mess. Every cabinet is a group of mixed shades of opinion. Wirth, a real democrat of the best intentions, does not seem to have good control even of his cabinet, and the cabinet probably does not know whether it is most afraid of the Reactionaries or of the Left or of the Industrials.

All this accounts for a good deal, and indicates what a great stimulus is needed if they are to become efficient for reparations. Their capacity under existing conditions is nowhere near their potential capacity. Their "bonne volonté", which means their desire to pay reparations is about as near the ideal as is their actual capacity.

What is to be done?

I have no sympathy with the puerile theory that Germany, having been licked and having signed the Treaty, ought to undergo a revival conversion, acknowledge its sin, repent, and rejoice in the opportunity to pay the wages of sin. I don't suppose any sensible person expects it, but quantities of people talk and write it. They can't seem to realize that most Germans honestly believe they fought a defensive war and are prepared today, and will be for years to come, to prove it. We believe so strongly in the righteousness of our cause that you cannot turn the case round and ask whether we would have repented if we had been licked, but this reversion of the thought helps illustrate how little effect repentance is likely to have on reparations.

And the thought of our attitude, if we had been licked, is mighty useful if you are trying to get reparations out of Germany. What stimulus would have set us to work to pay off indemnity obligations?

Of course, without force or the threat of force, we would never have paid a cent; so force is a necessity, but with the kind of force in use today, i.e., a gentlemanly civilized military occupation you could not by force alone get you and me to work very hard for victorious Germany. The methods of Wallenstein and Tilly on the contrary would have considerable effect on my natural dislike for personal exertion. If we were not too civilized to say that unless certain results were forthcoming, such a city would be razed, or bombed, or poison-gassed, or so many people would be selected by lot and hung, or so many girls would be deported, we could get some pretty good results out of Germany. But we are too civilized.

With the exercise of imagination, which has so far been wholly lacking in our use of force, we could devise threats which would be within the bounds of decency, and yet more effective than our present use of force, which costs terribly and produces nothing which could not have been obtained

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With the exercise of imagination, which has so far been wholly lacking in our use of force, we could devise threats which would be within the bounds of decency, and yet more effective than our present use of force, which costs terribly and produces nothing which could not have been obtained

with much less expense.

I would be willing to go a long way in the use of force if I thought it was the only way to produce results, but its ineffectiveness within the limits of civilized application has now been amply demonstrated, and no conceivable application even of uncivilized cruelty could make Germany an efficient instrument for producing wealth, any more than slavery, with or without the lash, could instill efficiency into human beings who had no hope of freedom.

Force (or the threat of it) sufficient to make Germany anxious to escape from it, combined with the possibility of escape from it, are the essentials of the problem. German responsibility for the war, her possible repentance, the amount of the damage she did, the financial needs of the Allies, have nothing to do with it.

The fundamental thing that has been lacking to date is this possibility of escape. Before the fixing of the Schedule of Payments the last of April, the amount of the indemnity was wholly indefinite, and the figure which everyone expected was higher than the 132 milliards of gold marks actually fixed by the Commission. The 132 milliards fixed in April, reasonable as it undoubtedly is, regarded as a decision under the principles of the treaty and even more reasonable if regarded as a penalty for guilt incurred or damage caused, is still unreasonable from the point of view of Germany's capacity to pay, and there is no incentive for united effort on the part of Germany to do her best so long as this condition continues- She sees no hope of escape.

One of the difficulties is that Germany herself must see the hope of escape before she can get in the frame of mind necessary. We may think we see it, but if she does not see it, her state of mind will not change. Everything that has happened since the Armistice has made it harder for her to see <u>it</u>, if <u>it</u> ever is there for her to see. She is now so depressed in spirit, so convinced that the policy of the Allies is dictated less by desire for reparations than by desire to weaken Germany, that she will not see the reasonableness of any given sum now as readily as if it had been fixed at the beginning. And what would actually have been a reasonable sum in the beginning would actually be unreasonable now. And the sum, which is within Germany's capacity is so small compared with the hopes and needs of the Allies, that the temptation to sacrifice the possible for the sake of weakening Germany is greater than it otherwise would be in many minds, tho the softening influence of time and the force of obvious world opinion may prevent this increased temptation from being increasingly effective.

The net result of the foregoing seems to be that to get Germany in the necessary state of mind, you must fix a sum or an arrangement obviously within her capacity, i.e. her capacity when in the proper state of mind is X, but to get the state of mind, you must limit your demand to X - Y.

In fixing the Schedule of Payments the Commission did something in the

right direction. The total is 132 milliards (eliminating adjustments), composed of 12 milliards A bonds, 38 in B bonds, 82 in C bonds. These are to be paid from the proposed annuity which is about enough to pay interest on the A and B bonds plus 1% annually on their principal. The C bonds do not become real bonds, or even carry interest, except as fast as the annuity can take care of them, i.e. if the variable annuity increases, or when and if the 1% amortization retires A or B bonds. This arrangement is something in mitigation, but it holds over Germany's head for an indefinite period this vast block of C bonds. If Germany could convince herself of the possibility of paying the annuity, she would still see ahead of her an almost interminable period of slavery. There are therefore two obstacles to the creation of the proper frame of mind. First, the fact that Germany thinks she can't pay the whole annuity anyway and so has no incentive for trying to increase her effort. Second, the long continuation of the annuity, resulting from the fact that C bonds are to be issued whenever the annuity is able to take care of them.

Just to illustrate my thought and, without meaning at all to suggest a final solution, I believe that if the C bonds were eliminated, and the A and B bonds and the annuity retained (even in their present shape) that Germany would pull out. This seems inconsistent with my belief that the annuity which is just enough to take care of the A and B bonds, is too large. But you would in the case supposed have the incentive - the possibility of escape - which is now lacking. You would then have credit to help the situation, which is now lacking, for Germany can get no credit while the total is as great as now. And Germany has no foreign debt, and great potential capacity. Perhaps even then some breathing space would have to be allowed by the Allies, but I am inclined to think that credit would take care of that, tho Germany's finances are in deplorable state. And you have also to presuppose an arrangement by which Germany would be allowed to make very substantial payments in kind instead of in foreign currency, and also that the customs barriers which the world in general seems to be hurrying to raise against German exports would not remain.

Such a scheme really would be based on Germany's potential capacity in the future, but this would not seem at first sight to be true, and it adds greatly to the attractiveness of any scheme to have it show on its face that when Germany's financial and economic conditions improve, the Allies are to share in the improvement. This means probably a moratorium (perhaps accompanied by some payments in kind), to give Germany a chance to get her finances in order, then an annuity based on Germany's capacity accompanied by some scheme for readjustment to later change in capacity.

Once you adopt as a basic principle Germany's capacity, you have made a great step in advance. It has never been done. The treaty requires the Commission to study Germany's capacity, gives it some power of postponement, but no power of cancellation without unanimous consent (of the governments, I think, but whether it is unanimity of the governments or the delegates makes no practical difference). The Schedule of Payments is based on the principle of a fixed annuity plus a variable annuity, the latter based on a percentage of volume of exports. But the amount of the fixed annuity, the use of the exports as an index, and the 26%, were all plucked arbitrarily out of the air, the only principle being that it was as moderate a solution as you could get at the moment. They had no relation to anything that any economist or financier had ever thought or said.

The percentage on exports is obviously a rotten arrangement. It tends to restrict the very means by which Germany must make payment. Up to date,

the tendency (which I combat) is even strong to include in exports payments in kind (on account of reparations?) Remember that at present value of the paper mark Germany is furnishing land-borne coal at about 1.25 to 1.40 per ton, and then consider that every ton adds one quarter of the 1.25-1.40 to her variable annuity. The Commission would have done much better to base their variable annuity on a percentage of the German budget. I don't claim this index which I suggest has much connection with increase in prosperity, but I have a profound conviction that it would do more to reform German finances than any other one thing, except the cessation of demands upon Germany which inevitably require her to buy foreign currency with paper marks instead of exports.

So unless you adopt some such scheme as the cancelling of the C bonds, you have (if you really want reparation and think the present arrangement will drive Germany bankrupt without producing anything substantial for the Allies except the disastrous consequences of Germany's bankruptcy) before you a moratorium. This means a complete or partial let up in demands to give Germany a chance to get her finances in order. Then would follow naturally a fixation of annuities. This might conceivably mean a decision on definite annuities, or a definite annuity and a variable. Or instead of a permanent decision, you might get a decision for a temporary period, subject to change at the end. The former is better for definiteness is preferable for the end in view, viz: to get Germany to work whole-heartedly. If capacity to pay were the recognized basis, then either scheme is an improvement on present conditions, but reservation of the power to adjust means that someone is to decide later what the capacity is, and I don't believe you can get the right state of mind on Germany's part, or credit from outside which is also necessary, unless you have something final and definite which both Germany and her possible lenders believe is practicable. Also any scheme which tries to get for reparations all of Germany's future increase in capacity kills the incentive.

The possibility of some substantial consideration of the matter is slightly improved in my mind by the fact that Poincare in his last current review in the Revue des Deux Mondes implies strongly that a moratorium may be necessary. He combines his intimation with criticisms of Germany's efforts to date, completely justified if you assume that Germany could be expected under the conditions to do her best, and justified to a substantial extent even under present conditions because Germany ought to have done more to cut down her expenses and the deficits of her post office and railways, to impose larger taxes, to insist upon private economy, to prevent concealment of resources abroad, to stop speculation in exchange, to arrange credits for the January and February payments, to facilitate restitution and reparation in kind under the treaty, and to push for opportunity for greater deliveries in kind and for use of German labor in France and Belgium, etc. She ought in other words not to have laid herself open to justifiable criticism for things which, if you have a tendency that way, can readily give support for the belief that she resists reparation in every possible way, and that the depreciation of the mark is merely part of the conspiracy to cheat the Allies. And she ought to have talked more convincingly. But what she might and ought to have done would no have changed much the fundamentals of the situation. Strong governments in victorious countries have not come very near the ideal in public finance, and when you think of this new and weak democracy in a defeated country, you are not inclined to be dogmatic, and certainly ought not to be extravagant, in assertions about what she could have done.

One thing which is strongly in Poincare's mind and the minds of many others is that there must be no further reduction in Germany's total debt. If you want to keep Germany weak, this is an effective way; if you want to get as much as possible for reparations, it seems absurd to anyone who thinks along the lines I have taken in this letter and do not need to elaborate further.

And Poincare wants further security, customs control, etc. a sort of receivership over Germany. I can't follow this as an effective means of getting reparations. I might possibly think of some specific things that I would insist on, but if Germany ever gets in the mood, they would come automatically, and if she doesn't, they would have comparatively little effect. There will be many to insist on occupation of the Ruhr or something similar, but Poincare did not lay stress on this, and I get the impression that the responsibilities and expense which this sort of thing involves, and the possible effect it might have (e.g. Bolshevism in other parts of Germany, if the occupation either by its psychological effect, or by actual diversion of the products of the Ruhr from other parts of Germany produced economic disturbances and unemployment), are being more clearly realized, and that the receivership talk which has become quite prevalent lately is due to the search for some substitute which will satisfy the monster, public opinion,-usually as a matter of fact better satisfied if he is fed on the simple plain diet of common sense. But the military gesture is the natural one, the public have been taught to believe in and to expect it, and it will take courage not to indulge in it.

The result of Briand's trip to the United States will have a useful influence on all this. The fact that everyone recognized the real need by France of a serviceable army, and that England and the United States led them to hope for support if needed, will tend to help the French consider the indemnity question from the financial point of view, without having their judgment disturbed so much by the spectre of attack if Germany is allowed to prosper. One cannot say how much they are affected by this thought, but the feeling is universal that it has tremendous influence on their opinions and policy.

I have talked about reparations, but it is a mistake not to keep in mind the other obligations of Germany, army costs about 400 millions gold marks per year, cost of the various commissions under the treaty, which tho' not tremendous are not negligible, and the monthly payments which Germany is making on account of clearing-house balances, which means the settlement of private pre-war debts between German citizens and citizens of the Allies. These debts have to be paid in gold. It would bankrupt the German debtors to do this, so the Government provides a part at least, and I think the whole, of the difference between the paper mark and the gold payment. The payments are now running at an arbitrary figure of 33,180,000 gold marks per month, subject to final adjustment. Then we have repayment of the temporary foreign loans by means of which about half of the one milliard payment was effected. This expedient is one of the important reasons why the effect of the payment of the milliard on foreign

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And Poincare wants further security, customs control, etc. a sort of receivership over Germany. I can't follow this as an effective means of getting reparations. I might possibly think of some specific things that I would insist on, but if Germany ever gets in the mood, they would come automatically, and if she doesn't, they would have comparatively little effect. There will be many to insist on occupation of the Ruhr or something similar, but Poincare did not lay stress on this, and I get the impression that the responsibilities and expense which this sort of thing involves, and the possible effect it might have (e.g. Bolshevism in other parts of Germany, if the occupation either by its psychological effect, or by actual diversion of the products of the Ruhr from other parts of Germany produced economic disturbances and unemployment), are being more clearly realized, and that the receivership talk which has become quite prevalent lately is due to the search for some substitute which will satisfy the monster, public opinion,-usually as a matter of fact better satisfied if he is fed on the simple plain diet of common sense. But the military gesture is the natural one, the public have been taught to believe in and to expect it, and it will take courage not to indulge in it.

The result of Briand's trip to the United States will have a useful influence on all this. The fact that everyone recognized the real need by France of a serviceable army, and that England and the United States led them to hope for support if needed, will tend to help the French consider the indemnity question from the financial point of view, without having their judgment disturbed so much by the spectre of attack if Germany is allowed to prosper. One cannot say how much they are affected by this thought, but the feeling is universal that it has tremendous influence on their opinions and policy.

I have talked about reparations, but it is a mistake not to keep in mind the other obligations of Germany, army costs about 400 millions gold marks per year, cost of the various commissions under the treaty, which tho' not tremendous are not negligible, and the monthly payments which Germany is making on account of clearing-house balances, which means the settlement of private pre-war debts between German citizens and citizens of the Allies. These debts have to be paid in gold. It would bankrupt the German debtors to do this, so the Government provides a part at least, and I think the whole, of the difference between the paper mark and the gold payment. The payments are now running at an arbitrary figure of 33,180,000 gold marks per month, subject to final adjustment. Then we have repayment of the temporary foreign loans by means of which about half of the one milliard payment was effected. This expedient is one of the important reasons why the effect of the payment of the milliard on foreign

exchange was not contemporaneous with the payment to the Allies, but was postponed till comparatively recently.

The fact that government finances of any country and the economic condition and economic capacity of any country are quite different things is illustrated in every country in Europe. Nowhere is it more apparent than in Germany , whose magnificent productive plant is so nearly intact and, as compared with many other countries, in active operation. The smoking chimneys, so often referred to, the dividends, etc. give an artificial impression of prosperity which serves as an argument that Germany can pay any amount. The real fact is that they are playing the game largely with chips which have no value because the banker does not propose to cash them at the end of the game. Some of the chips are real, -- those that come from part, not all, of their exports-- but these real chips are gradually, or better rapidly, being fed to the kitty. Such a game can't last long. Germany, more perhaps than some other countries, has got to have real chips. She has got to buy large quantities of food abroad. She is in essence a refining country, i.e. one whose work and prosperity depends on importing raw materials and exporting finished product, for which real chips are necessary. In other words she has got to have a sound financial position. And she can't have sound finances unless discretion is exercised in taking the real chips away from her, although as I said above she might have done better on finances and so postponed the evil day.

One corollary is obvious, viz: that deliveries in kind and manual labor ought to be utilized for reparations as much as possible. They could be so utilized as to minimize the effect of reparations on the real chips. Their utilization on the devastated regions would help Germany in the eyes of France and the world. Their utilization in this way helps to prevent the world economic disturbance resulting from Germany's export advantage due to depreciation of the mark. Education on this line of thought has been slow, the most people have now got the idea. But its practical application is still retarded by objections which are trivial in comparison with the main point, and by unwillingness to make concessions on this point until compensating concessions on other matters are obtained.

You will readily guess that it is pure accident that I am sending you all this. I started to write you about Louise, then thought you would be interested in my Berlin trip, and then got started on what I had been turning over in what I call my mind, and had intended sometime to put on paper for my own benefit, with certain ulterior motives which you may guess, but which I refrain from disclosing.

You and John will realize the confidential nature of it all. Not that the ideas are either new or confidential, but that the use of my name, or anything which would connect them with me would be most unfortunate.

Yours truly,

[redacted]

COPY

CONFIDENTIAL

TRANSLATION BUREAU - No 4268

November 23, 1921.

I

It seems that there is one question which at present takes precedence of all others, and that is the problem of ensuring the payment of the January 15 and February 15 instalments. In order to meet these payments the German Government must find about 400 million gold marks outside of the normal resources of the Commonwealth.

The method contemplated by the German Government is a loan granted by the German industrialists to the Government.

The industrialists themselves may raise this sum either from their deposits of foreign currency abroad, from the proceeds of a short term loan granted on their future exports, or from the proceeds of a long term loan secured by German industries.

At the present moment, however, the industrialists seem to be considering only the last solution, and they point out that it is very difficult to negotiate a loan under present conditions: foreign banks are not especially anxious to loan considerable sums to the nationals of a country of which the priority debts are extremely indefinite.

In case such a long term loan should be found impossible to negotiate within a short time, I consider that it would be essential to inform the German Government that:

1) German nationals possess deposits of foreign currency abroad which Herr Havenstein himself estimates at two milliard gold marks, which Herr Bergmann estimates at four milliards at least, and which in reality probably exceed these figures. In the course of a conversation Herr Havenstein gave this figure of two milliard gold marks, stating that it did not include the considerable sums in foreign currency possessed, not by industrialists, but by small merchants and employees. For the last few months the latter had been investing their savings or their wages in foreign currencies, and the migration of capital has thus become general throughout all strata of society.

2) The January and February payments may therefore be met by the voluntary cooperation of German nationals, if not by means of a short or long term loan, at least by means of a levy on the deposits of foreign currency which these nationals possess abroad at the present time.

3) If therefore the January and February payments are not met, Germany, if not the German Government, will be considered as being voluntarily in default.

If the policy outlined above, the object of which is first and foremost to provide for the January and February instalments, is such that the reparation question in its entirety may be considered now, without further delay, it is a reasonable policy. If however it merely indicates a willingness to look to the immediate future and to leave the inevitable difficulties of the more distant future to be settled by some chance or other, it is a very dangerous policy.

If the German Government is able to meet the January and February payments, the solution of the general problem will be postponed for five months or longer, according to whether the funds are obtained by a levy on foreign deposits or by a short or long term loan. The final solution will not however be rendered more simple, but vastly more difficult. The repayment of the loan contracted by Germany in order to pay the first milliard is now weighing heavily on German finance, and is considerably hampering the payment of obligations due. A further loan will only increase the difficulties for the future.

If, on the other hand, the German Government does not meet these payments, either discussion on the entire problem will open at once, or else discussion will be confined to the immediate future, and means of coercion will be resorted to which will affect especially the industrialists and will tend to force them to lend to the nation the available portion of their assets abroad. Such means of coercion are extremely difficult to find, and even if they

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could be found it is to be feared that many German capitalists would, rather than yield, follow their capital abroad. They will in fact have to choose on the one hand between giving up their property in Germany at a loss and living abroad on a certain income, and, on the other, lending the only part of their fortune which has a solid foundation to a Government whose budget will not balance and whose obligations are indefinite. I repeat that it is to be feared that many industrialists will choose the first alternative. It might perhaps be otherwise if it were possible at present to consider some practical means of Germany's meeting her reparation burdens.

Whether therefore the object is to facilitate the obtaining of money for the next payments or to prepare the solution of the problems of the near future (1), we are brought back to the general problem, of which I will now speak, and beside which the question of the January and February payments assumes a secondary importance.

II

Numerous schemes have been built up to obtain the payments as they are prescribed in the Schedule of Payments; 25% participation in industrial capital, control of the German debt analogous to the control of the Turkish debt, or military means of coercion, such as the occupation of the Ruhr, etc. It must be understood that the most ingenious scheme or the most energetic pressure cannot prevail against natural laws and get out of a country what it does not contain. As to a rigorous control of German finance, it would doubtless improve the financial situation by abolishing certain comparatively unimportant sumptuary expenses, by increasing certain taxes or rather by ensuring the collection of the very heavy taxes which are already imposed, and especially by reforming certain State undertakings, such as the railways, which are at present operated at great loss. This remedy would however be insufficient to reestablish .....

(1) The mere unofficial announcement of the adoption of a policy such as that recommended in the second part of the present note would be calculated to facilitate at once the conclusion of

a loan covering the next instalments. Assurances to this effect were given by one of the greatest bankers of the City.

the situation if the reparation problem did not receive a fundamental solution which would take account of economic facts.

Article 231 of the Treaty of Versailles proclaims Germany's responsibility for all the loss and damage to which the Allied and Associated Governments and their nationals have been subjected as a consequence of the war imposed upon them by the aggression of Germany and her allies. If this article had not been modified by the following one, Germany would have been responsible for all the loss and damage, including the costs of war, and the entire sum would probably have reached the fabulous figure of 1000 milliards.

In view of the obviously absurd situation that would be created by requiring a country to pay such a sum, it was decided to insert Article 232 and it would have been logical to expect this article to be based on a pre-war estimate of Germany's ability to pay; such was not the case. To a certain extent, Article 232 arbitrarily reduced the theoretical debt mentioned in Article 231 and placed to the charge of Germany, the damages set forth in Annex I, for sentimental or political reasons, without it being possible to maintain in any way that the reparation of these damages represented Germany's ability to pay, from the economic point of view.

When, on May 1, 1921, the Commission announced Germany's debt, it perhaps found it advisable to reduce still further the total damages estimated according to Article 232 and Annex I; this would constitute a second reduction of the theoretical debt without constituting thereby an accurate estimate of Germany's ability to pay.

Finally, at the time of the drawing up of the Schedule of Payments intended to ensure the payment of this theoretical debt which had undergone several reductions, yet another decrease was introduced; even if it were executed, the Schedule of Payments would not produce 132 milliards.

Thus, during the two years which have elapsed since the drafting of the Treaty, the Allied Governments have, by means of successive reductions, attempted to reconcile two distinct ideas: that of the theoretical debt and that of Germany's ability to pay. At the present time, I am convinced that this attempt has not yet succeeded.

These unadmitted reductions have gradually excited public opinion which justly considers that it has been misled. It would undoubtedly have been preferable to lay the following simple fact before it: there is on the one hand, the theoretical amount of damages which it is advisable to publish in its entirety, and on the other, there is the practical total which Germany is capable of paying with due regard to economic conditions.

I therefore think that the time has come when we must face the practical question of Germany's ability to pay. Some have said that this ability was a variable factor and one that could not be estimated beforehand; it was feared that this ability ~~could not be estimated beforehand; it was feared that this ability~~ ~~might~~ might be under-estimated and that twenty years hence we should see a free and powerful Germany.

But on the one hand, it is impossible to weaken a country and at the same time to strengthen it for making good the damages it has committed; on the other, the principle of demanding the maximum in order to obtain the minimum is an extremely dangerous one since, in demanding impossibilities, possibilities frequently disappear.

It has become a commonplace to allege that Germany who is obviously in financial distress, is economically prosperous and it has generally been concluded that this prosperity should enable her to fulfil her obligations.

It is difficult to convince any person that even a country which is economically prosperous can, in the present

state of modern civilisation, be unable to effect heavy payments in foreign currencies; this is however true.

The time has passed when, to exact payment from a conquered sovereign, he was, if necessary, subjected to physical torture in order to force him to give up his sacks of gold hoarded in the vaults of his capital. The commercial balance must be examined in order to ascertain a country's ability to pay in foreign currencies. Germany's commercial balance today shows a deficit. This deficit is perhaps less than the German Government alleges but it nevertheless exists.

Although German industry is flourishing, it cannot at the present time export to countries having a high rate of exchange owing to the customs barriers set up by the latter. It is impossible to demand the abolition of these barriers; Great Britain would, in particular, object to this procedure owing to her grave social difficulties due to unemployment.

The question therefore arises: how is it possible to obtain payment in foreign currencies from a country whose commercial balance at present shows a deficit?

I. The first solution consists in obtaining deliveries in kind. These constitute, in a way, an artificial increase in exports. Instead of exporting on the open market and assigning to reparation the foreign currencies thereby acquired, Germany delivers her goods direct to the Allies by way of reparation; this procedure amounts to a "short cut" and makes it possible to direct this new kind of exportation in such a way that it interferes as little as possible with the industries of the Allied countries. The Loucheur-Rathenau agreement consitutes the most noteworthy effort in this direction up to the present. It would seem possible to extend these deliveries in kind still further by allowing Germany to carry out certain works which the Allies could not execute themselves owing to the state of their finances.

All danger of competing with Allied industry is therefore dispelled; among such works might be included extensive hydraulic works, the construction of navigable waterways, the building of the Channel Tunnel, etc

II. Deliveries in kind, however, are not sufficient. Certain Allied Treasuries, such as the French Treasury, are in immediate need of cash. Germany might obtain this cash by means of loans, the lenders speculating on the re-establishment of a commercial plus balance within a reasonable time; but this calls for one essential condition. This condition is, that during the periods for the redemption of the loan whose proceeds are assigned to reparations and which loan represents Germany's present maximum capacity for credit, Germany be exempted from all other reparation payments in cash.

The ability to pay of a country at a time when it shows a negative balance may therefore be considered as the amount of her ability to deliver in kind and of her credits abroad.

III. There remains the question of Germany's future ability to pay, when having been granted a certain extension of time, and having redeemed the loan granted to her by the banks, it will again have a plus balance - this, however, is a question which cannot be solved in advance, and in this respect it does not seem inadvisable to allow, for the moment, the reduced total of the theoretical debt (132 milliards) to stand, it being understood of course that deduction be made for the amount of payments already effected, the amount of the loan and the value of the deliveries in kind - it is in fact the concomitant rather than the subsequent obligations of the debtor which may prevent possible lenders from offering assistance.

III.

To recapitulate, it will be necessary to choose between two policies : 1) that of demanding the maximum in order to obtain the minimum, a policy of weakness and regrettable concessions, and which each year leads to a crisis during which the friendship of the Allies is threatened - such a policy, in burdening Germany with the threat of impossible payments, ruins her credit and prevents her from contracting loans by means of which she might reasonably fulfil her obligations - and again, "to demand the maximum in order to obtain the minimum" makes it impossible to "obtain the minimum"; 2) that of estimating the deliveries in kind which Germany is able to make and the credits which she is able to obtain - to combine these and to say "this is Germany's debt for so many years" - such a policy is one of reason and firmness, requiring from Germany only what is possible - but ready to demand such payments by every possible means.

It is only in adopting this latter policy that measures of coercion may eventually become justified on the one hand, and that the measures of control referred to above will, on the other, bereally effectual. By means of a "Devisencentral" efficiently organised, the migration of capital might to a great extent be prevented and the possibilities of future payments be thus ensured. By a strict supervision of the budget, (for instance, by the suppression of unproductive undertakings) Germany's credit might be increased, in particular, her home credit which alone will enable her to meet her obligations in deliveries in kind by means other than by the continued issue of paper currency.

A TO SHARE TO EXCHANGE

Reserve Agent Is Expected to Sit in Paris or London Meeting.

BE UNOFFICIAL ADVISER

ve to Prevent Slump When Reparation Payments Are Made May Broaden Later.

Special to The New York Times.

WASHINGTON, Nov. 29.—The important announcement was made at the Treasury Department today that the United States probably would be represented by an agent of the Federal Reserve Board at an international gathering to be held soon in Paris or London to consider means to prevent the violent fluctuation of exchange rates when reparation payments are made.

While the American appointee would sit as an unofficial adviser and without authority to make decisions, where the interests of this nation are concerned, the fact that the United States is considering a proposal to co-operate in such a meeting in any capacity attracted much interest.

It was said at the Treasury Department that an invitation to send a representative had been received through the State Department, and while no formal acceptance had been transmitted, it was probable that an agent of the Federal Reserve Board would be named. The point was emphasized, however, that this did not mean that the United States Government, as such, was prepared to enter into a general international discussion which would include the readjustment of German reparations and the war time indebtedness.

Financial experts who have taken the position that the United States could not long hold off from participating in conferences which involve the economic problems of Europe were elated by the developments. Added interest has been given to the situation by the statements made by Frank A. Vanderlip and James Simpson of Marshall Field & Co., who, after a personal study of European conditions, expressed the belief that drastic steps must be taken, with American co-operation, if economic and financial chaos are to be averted in Europe. Administration officials, however, have refused to comment upon these statements.

Move by Reparations Commission.

The meeting to be held in Europe, it is understood, will be at the instigation of the Reparations Commission, which determined that it was essential to appoint an international committee of bankers, representing the great banks of issue, to advise on the best means of preventing future reparation payments from seriously affecting international [illegible]

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Treasury Department officials did not make public information concerning the source of the invitation extended to the United States, but said merely that it was from European interests. The [illegible] to send an agent of the Federal [illegible]ve Board is based upon the fact [illegible] the Federal Reserve system represents one of the great banks of issue which is interested vitally in the exchange conditions.

Germany has heavy reparation payments to make in January and February, and it is believed that the most serious situation will be confronted then. The committee now to be selected, with an agent of the Federal Reserve Board sitting as an unofficial observer, will endeavor to find some means of preventing the exchange markets from going to pieces again.

Advices which have been received from abroad are that efforts will be made to keep the proposed deliberations within this restricted scope. This fits in with

Continued on Page Two.

AMERICA TO SHARE IN AID TO EXCHANGE

Continued from Page 1, Column 7.

the belief of the Treasury Department as to what should be done. The point was made today, for instance, that the proposed gathering was in no sense an official international gathering to take up the provisions of the Treaty of Versailles and the whole problem of German reparations.

For a long time, there has been a persistent effort on the part of certain European officials and bankers to have American participation in conferences dealing with the financial and economic problems of Europe. France and Italy were anxious that these matters should be taken up by the Conference for Limitation of Armament but these suggestions were overruled by the American delegation.

May Lead to Other Meetings.

The importance of today's announcement lies largely therefore, in the possibility that the proposed gathering to consider means to prevent disastrous fluctuation in exchange rates when reparation payments are made, may lead to other meetings in which America will be represented. There are some experts who believe that this is inevitable, and that within a short time a modification of the reparation terms will be necessary.

In connection with the proposed meeting in Europe a recent address by Herbert Hoover, Secretary of Commerce, before the American Manufacturers' Export Association, was recalled with interest. In that address Mr. Hoover said:

"The great banks of issue are the guardians of stability in currencies. It would appear to me that those institutions, the Federal Reserve, the banks of England, of France, of Amsterdam, of Italy and of Spain, could well con-

tries is making toward a possible balance of exports and imports.

"Due to many political currents that flow through all this area, there seems little prospect that these things could be brought about by political action. Yet some effort in these directions is at least worth a plan at the hands of the great banks of issue, for against them no one can bring the charge of other interest than that of economic stability to the world as a whole."

German Payments Soon to Be Due.

WASHINGTON, Nov. 29 (Associated Press).—Germany is required to pay 500,000,000 gold marks on Jan. 1, 1922, and about 85,000,000 marks on Feb. 15, the latter payment being the quarterly instalment of the 26 per cent. on the estimated value of German exports during the last quarter of 1921. These payments will be due under the reparations agreement between the Allies and Germany of last March. Of this amount France is to receive 52 per cent., Great Britain 26 per cent. and Italy 10 per cent., the remainder going to the smaller allied and associated States.

The German Treasury, according to authoritative statements in Berlin, feels itself able to cover these payments, but doubts whether its resources will be sufficient to meet instalments of the same amount due April 1 and May 15, 1922. Authoritative opinion in the French armament delegation is that, while the meeting of representatives of the banks of issue may give temporary assistance to Germany on the question of exchange, something more comprehensive must be done early in the new year to restore the value of the German mark abroad or Germany may not be able to meet subsequent instalments.

The only solution, it is felt, that might be adequate would be one arrived at by an international conference in which to assure success the United States, as the dominant financial power must take part. The desire exists to have the American Government call such a conference.

The British arms conference delegation through an authorized spokesman today took occasion to state positively again that there was no intention on the part of the British Government of bringing up the subject of international indebtedness at the conference. It was said that the conference was [illegible] strictly to the agenda so far

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"The great banks of issue are the guardians of stability in currencies. It would appear to me that those institutions, the Federal Reserve, the banks of England, of France, of Amsterdam, of Italy and of Spain, could well consider that it is within their province to concert some unofficial plan leading to the re-establishment of this primary condition of economic life. Their guidance and supervision, indeed, might encourage not only local capital but such private foreign capital as might be necessary to currency rehabilitation in each case. And through such action there mig[illegible] be guidance in fiscal policies in some those countries that are the very premise of stability. This is nearer in the realm of possibility today than it would have been a year ago, for gradually [illegible] every effort of those countries is making toward a possible balance of exports and imports.

"Due to many political currents that flow through all this area, there seems little prospect that these things could be brought about by political action. Yet some effort in these directions is at least worth a plan at the hands of the great banks of issue, for against them no one can bring the charge of other interest than that of economic stability to the world as a whole."

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Declaring willingness to abide by the limitations placed by the agenda upon the subjects to be considered by the conference, the Italian delegation through a spokesman today showed a lively interest in the possibility of a subsequent economic conference to consider the financial situation of Europe. This Italian spokesman stated that the basis for the belief in the American people might be favorably disposed to such a project was found in the [illegible] made in New York by Frank A. [illegible] derlip.

JAMES A. LOGAN Jr.

Paris, 18 rue de Tilsitt.
2 December 1921.

PERSONAL & CONFIDENTIAL

My dear Ben,

The Reparation situation still remains delicate, however all the information that I receive indicates that the French are adopting a more reasonable attitude, and I therefore hope that very shortly something constructive will be accomplished.

From authentic sources I am informed the British Government and the British financiers have determined that it is absolutely necessary to bring the Reparation situation to a head. They feel that an immediate moratorium is the soundest policy through they have not yet definitely determined whether to yield something by helping supply funds to Germany for a short term loan to cover the January 15th and February 15th instalments. The latter line of action will only be adopted on the condition that some definite arrangement for a breathing space thereafter is agreed upon by the French. The amount of this short term loan if made would be somewhere between 400 and 500 million gold marks. The moratorium or breathing space tentatively discussed by the British is for a period of 2 years with additional provision that if the Reparation Commission be satisfied that Germany has made a reasonable effort to put her finances in order, the period may be extended by not exceeding 2 additional years. During the period of breathing space deliveries in kind within reasonable limits would be continued and not only the French but all the other Allies would participate. In addition, if France were to receive more values on account of deliveries in kind than her pro-rata share, the financial adjustment as between the Allies would be held over and adjusted when future reparation payments are made.

If this moratorium or breathing space were accorded Germany it would be contingent upon the latter Governments' accepting certain conditions of control somewhat more stringent than those at present contemplated by the Schedule of Payments. A balancing of the German budget would be insisted upon? The Allies would require a complete supervision of Germany's foreign exchange transactions, and in addition would probably require the separation of the Reichsbank (under Allied control) from Governmental control so as to prevent further inflation of German currency.

I understand that English bankers are in touch with certain American bankers who have expressed views similar to the English. It has been suggested that the Morgan group is that referred to

though of this latter point I have no definite confirmation. 11/23/21

I enclose herewith translation of a confidential memorandum which I have received through the most reliable French sources. I am informed confidentially that Loucheur and in fact most of the French Government are in accord with the views expressed in it. I was told that Poincaré had read it and he is quoted to me as having said that the memorandum expressed his views and that if he came into power as President of the Council, the policy indicated was the substantial policy he intended to follow. Now, while I don't take the foregoing any too seriously, it is nevertheless interesting as showing the train of thoughts of the more serious Frenchmen. The public however have been bamboozled for such a long time that the process of debamboozling them will be accomplished with difficulty and much clamor in the less conservative French press.

The widely published French press clamor should not be taken too seriously. I am satisfied that the serious minded French politicians thoroughly realize the fact that Germany's shortage in exchange (a thoroughly practical situation) prevents Germany from making for the present cash payments to the amount contemplated by the present Schedule of Payments. These same gentlemen thoroughly realize that if Germany is to make substantial cash payments in her present position foreign loans are necessary and in this latter event they also entirely appreciate the fact (which has been more or less taught them by today's attitude of the British bankers) that the banker and not the politician is the gentleman who determines the amount of the loan and dictates the conditions under which such loan will be granted. The British banker will not act without a certain moral or practical support of the American banker. This leads me to the conclusion that much in a constructive way is possible of accomplishment directly through the medium of our bankers working with the understanding of our Government.

I do not believe the French in the present situation will agree to a complete moratorium in German cash payments. I am inclined to think on the other hand that the British have stated their proposals low but with the intention of conceding by way of compromise some conservative annual cash payment in addition to the value of deliveries in kind. Any such cash payment would have to be stated at a figure which would be inclusive of all cash payments required under the terms of the Treaty, as, for example, not only reparations but also costs of Armies of Occupation, Clearing Office payments, Alsace-Lorraine agreements, expenses of Allied Commissions, etc. In other words, assuming that the value of deliveries in kind were fixed at 1 milliard gold marks and the value of cash payments at 1,200 million gold marks per annum, and that X equals the

total annual obligation on account of other Treaty charges mentioned above, the reparation payment would be 1 milliard deliveries in kind, plus 1,200 million cash payments, minus X. While from a pure standpoint of economics I would hate to justify a figure of 1,200 millions as representing Germany"s ability to make cash payments to this amount within the next two or three years, I nevertheless believe that a figure to this amount is within the realms of possibility and perhaps necessary in the present political situation. The possibility of such cash payments under today's conditions stated is borne out by certain private conversations I have had with the Germans. It must be remembered that German statistics, particularly those relating to her "invisible balance" are not convincing.

The next difficulty occurs concerning the so-called "Belgian priority" under which agreement Belgium is to receive as a part of her pro-rata share in reparations the first 2 milliard 500 million payments made by Germany on account of reparation. This priority was accorded at a time when it was believed that Germany would have little difficulty in meeting her earlier reparation payments. Obviously if payments during the next few years are to be reduced by the moratorium or breathing space process, and if all cash received for some months or even years to come are devoted exclusively to the satisfaction of the Belgian priority, France has reasons to feel aggrieved. The Belgians are good business people and have already informally, though not officially, indicated their willingness to reduce their demands in satisfaction of their priority to 50% of the amount of cash payments made by Germany. Such a line of action could not help but be beneficial in securing the approval of the French to the moratorium or breathing space plan.

I understand also that our own Government has been exerting some pressure on Belgium for the re-payment of certain post-war advances which were made under agreement of re-payment from the first sums received by Belgium on account of reparation. While I do not know definitely, I judge the British who made similar advances under the same conditions have also been pushing Belgium with the result that their "priority" has some back fire to it. I am inclined to think that this phase has been contributory to the Belgian informal "50%" concession under the priority.

To sum up briefly the position of the negotiations today. The British hold for a moratorium in reparation cash payments for 4 years but with deliveries in kind during the same period and an addition probably of sufficient cash to pay for Army Costs and Clearing Office expenses. The French in addition to deliveries in kind desire moderate cash payments. I am inclined to believe that a final compromise will be reached on somewhat the same lines as indicated in the second

paragraph above, though not necessarily at the figure of 1,200 million gold marks per annum as cash payments but somewhere near it and on the same basis as it being inclusive of other Treaty cash obligations.

In general, I am very much more hopeful of a practical solution of the whole problem than I have been for some months past, and this particularly due to the obvious change in attitude of the more serious minded leaders.

Please excuse this somewhat gossipy letter but I believe it will give you a very good picture of the situation today, which I hope will be of interest.

Faithfully yours,

James A. Logan Jr.

JAL/BD
1 incl.

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

C797

JAMES A. LOGAN Jr.

Paris, 18 rue de Tilsitt.
3 December, 1921.

Dear Ben,

✓11/3/21

In one of your recent letters you mention Vanderlip's proposal to the Austrian Government to send a Delegation to America to discuss some adjustment of the Austrian debt to the Grain Corporation along the line of the plan proposed last May for Austrian rehabilitation under the protection of the League of Nations.

This is the first information I have of this Vanderlip proposal. I saw Vanderlip while he was here and while he talked in a general way of the situation, he made no mention of this phase. (Confidentially I was not very much impressed with any of Vanderlip's theories). Some two or three months ago, the Austrian Government proposed sending representatives to America for the purpose indicated. Frazier, our Commissioner in Vienna, for the same reason as you, had advised against their going. We did the same thing here, and the State Department came back with a reply to the effect that while our Government had every sympathy with the Austrian situation, it was powerless to do anything without Congressional approval. The Government intimated that while it had no objection to the proposed visit, that it nevertheless felt that any visit prior to Congressional action was inopportune and that the time of the gentlemen going to America and the expense of the trip would in all probability be wasted. I politely informed the Austrian representative here of the foregoing reply of our Government, and my understanding was - and still is - that the project was abandoned. Vanderlip may however have stirred up the question again, so I am sending a confidential telegram to Vienna asking for information as to the status of the question today. Upon receipt of the reply I will advise you further.

It may interest you to know that the following constitutes advances made for relief to the Austrian Government since the Armistide and primarily covers the value of foodstuffs which have been delivered and consumed:

United States of America	$24,066,798.56
United Kingdom of Great Britain and Ireland	$16,000,000.00 5,650,460 pounds sterling 8,863,960 Italian lira.
France	$16,000,000.00 513,410 French francs. 36,388,340 Italian lira.

Italy	$16,000,000.00 154,785,340 Italian lira.
Netherlands	14,407,200 florins.
Switzerland	24,075,680 Swiss francs.
Norway	1,631,520 Kronen.
Denmark	1,255,100 Kronen.
Sweden	100,695 Kronen.

All of the foregoing advances have or will be covered by a type of bond similar to the enclosed copy. In accordance with my understanding all of the Governments above mentioned have waived payment for 20 years except ourselves, we being prevented by law from doing this without Congressional authority. Needless to say I consider all the paper covering the foregoing advances as practically worthless.

In view of the recent disturbances in the city of Vienna you may be interested in the attached copy of report dated November 28th 1921 which I have just received from one of our agents there. I judge the report as to these disturbances as published in the American press was greatly exaggerated. The Austrian and particularly the Viennese population are entirely too docile to really create a big row. As far as I can make out the mob's attack was more or less spontaneous in origin, and principally directed at the foreign schiebers and other exchange profiteers who have been infesting that country and indulging in financial grave robbing. I admit that I have some sneaking sympathy with the mob.

Faithfully yours,

James A. Logan Jr.

JAL/BD
2 incls.

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

Nov. 28th 1921.

On November 21, the government issued a law subjecting every visitor of the stock exchange to a hundred gold crown tax per month and penalized severely dealings with foreign exchange outside of the regular stock exchange. In protest against this measure of the government the stock exchange has been closed on Monday and Wednesday of the past week and negotiations went on between the committee of the stock exchange and the government for modification of the law. The stock exchange committee criticized this measure as a head tax which would force all but the most powerful members of the stock exchange out of business, which would tend to shift much of the business of the Succession States carried on in Vienna to Prague, Pressburg, or Budapest, and finally as an unfortunate indication by the government of its lack of confidence in the local currency of the country.

The government persisted in its attitude and as a consequence the stock exchange committee unanimously resigned. After voting, however, to reopen the stock exchange which was done on Friday, November 25,.. The government has appointed temporary members to fill the vacancies in the committee. New elections are expected to be held in December.

The closing of the exchange did not prevent unofficial dealings in foreign exchanges by the banks. The foreign monies tended on the whole to rise. The dollar, for example, was quoted at about 6000 on the first day, about 6200 in the middle of the week and 6648 on the 25, the day of the opening of the exchange.

The NEUE FREIE PRESSE of November 22, publishes a balance sheet of the Austro-Hungarian Bank which shows the following situation. The circulation of paper-currency has gone beyond 100 billion kronen. At the beginning of the year the circulation figured at 30.6 billion kronen, which shows an increase in circulation for the past ten months and a half of 72.5 billion kronen or a weekly increase of 1.6 billion kronen. In recent months the average increase in circulation has been at least 5 billion kronen and over 10 billion kronen for the last week in October. During the second week of November the circulation was increased by 7.9 billion kronen and additional deposit credits of 2.3 billion kronen were made. The great demand for currency came from three sources, namely:

1) Presentation of Treasury Bonds to the extent of 5.49 billion kronen.
2) Monies paid by banks to industrial concerns 2.36 billion kronen and
3) amounts paid to sundry persons 1.6 billion kronen.

The average circulation of paper currency per head of population amounted to 17.000 kronen.

Bank balance November 15, 1921.

ASSETS:	Kronen	LIABILITIES	Kronen
Metal Reserves	6,417,134	Notes in ciruulation	103,128,983,328
War Bonds	251,023,750	Call Liabilities	9,159,614,569
Discounted Com.Paper	8,548,336,446	Claim on Austro-Hungarian Bank	1,052,299,604
Securities	627,191,800	Sundry Liabilities	4,830,653,101
Treasury Bonds,	95,882;597,000		
Stocks and Bnnds	1,436,052		
Liquidation Property at Austro-Hung.Bank	7,720,999,945		
Other Assets	5,133,548;495		
	118,171,550,603		118,171,550,603

The Federal Statistical Office has published statistics showing the cost of living for a family of four persons in October 1921 in comparison to the cost of living in July. The figures are only brought up to the middle of October and the latest rise in prices has already rendered these figures inadequate.

The following summary shows the minimum necessary expenditure for food,clothing, lodging, and sundries:

	Expenditure in Kronen				(I.F.June 1914 = 1) Index Figures		
	July '14:	Mch.'21:	June '21:	Oct.'21:	Mch.	June	Oct. 1921.
Foodstuffs	78.05	5899.-	7352.66	16172.36	81	98	207
Clothing	36.21	5582.-	6697.75	13890.	154	185	384
Lodging	20	40.-	75.	125.	2	3.80	6
Heating &Lighting	17.39	871.5	924.	1860.	50	53	107
Sundries	13.38	711.	891.	1807.	53	67	135
Total Expenditure	165.03	13103.5	15940.41	33855.36	81	98	205

The NEUE FREIE PRESSE of November 24th devotes its leading editorial to the cost of living. It declares that the increases in prices which have ensued since the table was drawn up and the further burden upon the family budget which will ensue as a result of the abolition of the state food subsidies will give a monthly expenditure at the end of the year of approximately 67,000 kronen for a family of four persons or a yearly expense of 800,000 kronen.

Forebodings are frequently heard that the cost of living will again double after January 1, due to the removal of the state food subsidy, the importance of which in the government's financial program is plainly to be seen from the following table, given in the NEUE FREIE PRESSE of November 18th. This table shows the principal sources from which the government expects to secure additional revenues. The measures are expected to enter into force by Christmas.

	Billion Kr.
Increased Railroad rates (already effective)....	31.06
" Postage, Teleph.& Teleg. rates	16.20
" Tobacco Prices	16.50
" Taxes on Alcoholic Beverages	7.00
Revised Groundtax and Industrial Earnings tax ..	1.00
Money and goods transfer taxes	18.00
Revised Capital tax) Revised Income Tax) ..... Miscellaneous Fees)	12.00
Savings from Abolition of the State Food Subsidies	60.00
	161.76

The month of October which saw such a revolution in prices was nevertheless a month of business activity, at least for the city of Vienna as is shown by the statistics of unemployment published by the NEUE FREIE PRESSE of November 18th. There was a falling off of 4164 in the number of unemployed as compared with the beginning of the month. The decrease was most marked among the workers in the metal industry.

The NEUE FREIE PRESSE of November 27, publishes an address of Federal Chancellor Schober to a delegation from western Hungary in which he declared that there was no truth in the rumors being spread that the Austrians would again withdraw from the Burgenland. The former withdrawal had been due to the fact that the Entente had allowed the Austrian government to send only its police and civil service employees into the region, but that now the Hungarian bands had been forced to withdraw and Austria had been permitted to send its regular troops in. He concluded: "We are now in the land and we shall remain there. The Burgenland and Austria are from now on indivisibly united, one people, one speech, one state.

On November 25th, the fourth meeting of the Social Democratic Party opened in Vienna. All the provinces were represented as well as the German Social Democrats in Czecho-Slovakia. The opening address of President Seitz showed the conservative influences now dominant among the leaders of the party. "We have with deep disappointment learnt to know the real speed of economic and social development and have become convinced that the creation of a new world can only proceed at the rate set by the economic situation." "..... The power of the proletariate lays upon us serious duties, sets limits to our parliamentary activities in carrying out our opposition.

Dr. Otto Bauer in the meeting of the following day spoke in much the same vein. He described the situation of the proletariate in various countries and admitted that, for the time being, it was on the defensive. As regards Austria its need for foreign aid makes the supremacy of socialism impossible.

"No Bourgeoin government can exist, however, a day should we decide to overthrow it. We cannot and we do not want to use our power, however, except in some question vital to the life of the republic. The collapse of the republic would benefit not the proletariate but the counter-revolution." Dr. Bauer concluded that in the dark days ahead the proletariate must be organized and prepared for any eventuality, whether it be peaceful development or energetic revolution.

NOTED H. B. H. 883

I7 th. August I920

COMMISSION INTERNATIONALE DES CREDITS DE RELEVEMENT ECONOMIQUES.

OBLIGATION POUR L'AUTRICHE

(Série B - Secours I920)

OBLIGATION DU GOUVERNEMENT de _____

SERIE B - SECOURS I920 N° - _____

Le GOUVERNEMENT de _____

promet de payer, pour valeurs reçues, au gouvernement de _____ ou à son ordre, le _____ jour de _____ I92__ la somme en principal de _____ sur laquelle les intérêts seront payés semestriellement au taux de six pour cent (6 %) par an, de la date de la présente obligation jusqu'à celle du remboursement. Le principal ainsi que les intérêts de la présente obligation seront payés _____

_____

_____

Le principal et les intérêts de la présente obligation seront payés sans déduction, francs de tous impôts ou taxes de toute nature, présents ou futurs établis par le Gouvernement, ou par une autorité quelconque, politique ou autre investie du droit de créer des impôts ou taxes dans _____ ou dans ses possessions.

La présente obligation fait partie d'une série d'obligations de teneur analogue, mais susceptibles d'être de montants différents et d'être remboursables en d'autres monnaies, qui viendront toutes à échéance le _____ jour de _____ I92__ et qui sont désignées sous le titre "Série B - Secours I920.-

Le Gouvernement de _____ s'engage à ce qu'aucun paiement portant sur le principal ou sur les intérêts, ne soit effectué sur ou à l'occasion de l'une quelconque des obligations de la dite série émises par le Gouvernement de _____ soit à la

.....

date de l'échéance, soit avant, soit après, sans qu'un paiement semblable soit effectué en même temps sur toutes les obligations de la dite série émise par le Gouvernement et au prorata des obligations respectives de la dite série.

En vertu des pouvoirs qui lui ont été conférés, la Commission des Réparations a autorisé le Gouvernement autrichien à émettre la présente série de Bons, sous le contrôle de la Section d'Autriche de la Commission des Réparations. Ces bons jouiront d'un privilège de premier rang sur tous les biens et ressources de l'Autriche et auront priorité sur le paiement des réparations dûes en vertu des dispositions du Traité de St-Germain ou de tout Traité ou Accord y annexé, ou en vertu d'arrangements conclus entre l'Autriche et les Puissances alliées et associées pendant l'armistice signé le 3 Novembre 1918 sans préjudice des obligations qu'à l'Autriche de payer les frais d'entretien des armées d'occupation, les dépenses de la Commission des Réparations, et les frais de la restitution, et d'exécuter les remises et paiements en nature, en vertu des dispositions du Traité de St. Germain (à l'exception de ceux visés à l'Art. 181 et au § 19 de l'Annexe II à la Partie VIII) et de tous Protocoles ou Accords en vigueur, dans la mesure où ces remises pourront être requises par la Commission des Réparations ou, conformément aux dispositions des dits Traités, protocoles ou accords, par une Puissance intéressée.

Signé pour le Gouvernement autrichien.

Contre-signé pour la Section d'Autriche
de la Commission des Réparations.

C797

ASSISTANT SECRETARY

TREASURY DEPARTMENT

Washington,

November 29, 1921.

Dear Ben:

Your letter has just been read to me over the telephone. I am also laid up at home for a couple of days with cold and a little grippe.

The cables have been considered by the State Department, and I think informally by the Cabinet. It seems to be generally agreed that we should send an unofficial representative who should sit in the same capacity as that of Boyden.

A cable has gone to Boyden asking how long such a committee might be expected to be in session. It would appear that if they are only going to meet once for a day or two, it would hardly pay to send someone over from here to represent the Federal Reserve Board. On the other hand, if they are going into more or less of a permanent session as advisers to the Reparation Commission, perhaps someone had better go from here who will stay with the job. I agree with you that this committee may be the beginning of a move in the right direction. No more now. Will write you as soon as I get back to the office and have something definite from the State Department.

Always yours,

Eliot Wadsworth.

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

C797

E.W.

TREASURY DEPARTMENT

WASHINGTON

OFFICE OF
ASSISTANT SECRETARY

December 3, 1921.

PERSONAL

Dear Ben:

I am back on the job again and am writing another line in reply to your letter of the 26th.

In the first place, I am terribly sorry to hear that you are laid up. Basil told of telephoning to you and finding you not allowed to converse even in the softest tones. I hope you are improving. For Heaven's Sake do not let John Skelton know that you are speechless, even for a moment. It would be too inviting for him altogether.

About the meeting of the representatives of banks of issue, we are still waiting to hear from the State Department and they are waiting to hear from Boyden. I think, however, we have decided that some one should represent the Federal Reserve Board unofficially just as Boyden sits on the Reparation Commission. The question of who it should be is still awaiting word from Boyden as to what kind of work the Committee will do. If they propose to just have one short meeting, then probably the Federal Reserve Board will designate Boyden or one of his staff. If they are to assume some permanent function, it may pay to try to get some one to go over from here. This is, of course, all under your hat.

The way reparations are going such a Committee might have a lively time for a little while and then find that they were giving advice in connection with payments that were not being paid.

No doubt you are following the Conference here with great interest. I am sure nothing will be done about a general economic conference until this one is over, when conditions at that time will be more or less of a factor in deciding about the next step. I talked with Mr. Mellon the other day and he is very strongly against a conference which will in any way interfere with what is going on now. Of course the Administration has steadily set its face against taking any active part in the reparation situation.

You have no doubt seen that the Funding Bill is to come up next week. I am going up today to lunch with Senator Watson and give him all the latest dope. They expect an interesting debate, and unless some of our Senatorial friends are in the same condition that you are by doctor's orders there will probably be some pretty lively things said.

Henry talks quite definitely now about his trip to Belgium. It is not entirely settled, but I imagine that it is pretty well on the way. We shall all miss him here in this town.

Always yours,

Good luck old Tof.

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

Take care of yourself

Eliot Wadsworth

Federal Reserve Bank

Form 1226

Charge to the account of ~~Benj. Strong, 15 Nassau St. New York City~~ $

C797

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NEWCOMB CARLTON, PRESIDENT GEORGE W. E. ATKINS, FIRST VICE-PRESIDENT

Number
Time Filed
Number of Words

Send the following Cablegram, subject to the terms on back hereof, which are hereby agreed to

December 6, 1921.

Logan
~~Amembassy~~ 18 Rue Tilsitt,
Paris

Believe good plan to get familiar with situation here stop

Confidentially Prather goes Brussels after Conference

Strong

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To guard against mistakes or delays the sender of a cable message should order it repeated, that is, telegraphed back to the originating office for comparison. For this, one-quarter the unrepeated cable message rate is charged in addition. Unless otherwise indicated on its face this is an unrepeated cable message and paid for as such.

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Form 2875

WESTERN UNION

ANGLO-AMERICAN DIRECT UNITED STATES

CABLEGRAM

NEWCOMB CARLTON, PRESIDENT GEORGE W. E. ATKINS, FIRST VICE-PRESIDENT

C 797

12/6/21 Answered B.S.

Received at 38 BROAD STREET, NEW YORK

2715 5

1921 DEC 6 AM 12 37

AZPQ67 SX

PARIS 38

STRONG FEDERAL RESERVE

NYK

JUST REQUESTED AUTHORITY GO HOME FOURTEENTH PLAN CHRISTMAS WEEK PHILADELPHIA AND TWO WEEKS WASHINGTON BEFORE RETURNING STOP SOMEWHAT WORRIED PRESENT SITUATION PARTICULARLY PRATHER STOP CAN POSTPONE TRIP BUT REQUEST YOU CABLE OPINION ADVISABLITY

LOGAN

Reply -

Believe good plan to get familiar with situation here. Stop. Confidentially, Rather goes Panama after conference.

Strong

COPY - MD

PARAPHRASE OF TELEGRAM RECEIVED.

From: American Embassy, Paris.
Dated: December 18, 11 a.m.
Received: December 19, 8:40 a.m.
No. 691.

This cable embodies a message from Boyden, B-608.

On December 13 the German Government paid to Belgium on account of sixteen million five hundred thousand gold marks due import duties November 15th, the sum of one million three sixty-four thousand nine fifty-three dollars eighteen cents, equivalent to five million seven twenty-nine thousand eight eighty-nine twenty centimes gold marks.

Boyden.

HERRICK.

EH

CGM - MD

PARAPHRASE

Cable Message from the American Ambassador at Paris No. 685, December 16, 1921; 10 a.m.

The telegram embodies a message from Mr. Boyden, December 16 - 11.00 a.m. B-605, as follows:

First: Formal request was made of the Germans on December 15 for delay on the balance of the January - February payments which they are unable to raise. The statement is made by them that they are unable to pay from 150 to 2 (hundred ?) million gold marks. They applied for credit for this in England but under the existing indemnity arrangement were refused. Furthermore, the note states that although it is inevitable that there will be difficulties with reference to late payments, their present request is limited to the January - February payments.

Second. Regarding the indemnity arrangement, nothing definite as yet emerges from the governmental negotiations. It seems evident that the French Government is less anxious than it was for military measures. A willingness is indicated to concede substantially with respect to the cash payments by Germany with an effort to obtain concessions in return on Belgian priority; also with reference to the British share of the indemnity combined probably with an effort to arrange, as future conditions permit, a loan to Germany.

Di ET:MVB ss

C 997

THE UNDER SECRETARY OF THE TREASURY
WASHINGTON

December 21, 1921.

PERSONAL AND STRICTLY CONFIDENTIAL

ACKNOWLEDGED
DEC 23 1921
B. S.

My dear Governor:

I enclose for your information a copy of a confidential cablegram, dated December 16, 1921, from Mr. Boyden, the American unofficial representative with the Reparation Commission as to the conversion of the francs and lire to be paid to Belgium. I am sending you this cablegram because of the bearing which this conversion of currencies will have on the foreign exchanges. I call your attention particularly to the special injunction of secrecy issued by the Reparation Commission.

Very truly yours,

S. D. Gilbert

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

1 enclosure

Cable

N

C O P Y

Cable message from the American Ambassador at Paris,

No. 684, December 16, 1921; 5 P.M.

PARAPHRASE

The telegram embodies a message from Mr. Boyden, B-604, and reports as follows:

It was decided by the Commission on December 14 to begin conversion and to pay to Belgium as rapidly as could be converted francs and lire which were excluded previously from the payments to Belgium and which were held under the French and Italian guarantee. It is probable that now these sums are all in the form of government bills of short term. The status at present of these sums is the result of the desire to take no steps to depreciate exchange. It seems that the recent rise makes possible conversion without results of a serious character. The Finance Service, however, has been instructed to take steps to effect conversion only to such an extent as is possible without serious depreciation. Instructions have also been given to proceed with great caution. Immediate suspension of the conversion is to occur if the rate of the French or the Italian exchange should fall to level of loaded (lowest?) average rates guaranteed. The amounts involved

are 206 million francs and 173 million lire. Power is possessed by Belgium to name the desired currencies. Request has been made by Belgium that francs be converted into one-half French francs, one-quarter Belgian francs, one-eighth dollars and one-eighth sterling. Request has also been made by Belgium that lire be converted into one-fourth Belgian francs, one-fourth French francs and one-half dollars. It is thought by the Finance Service that the transaction may involve a period of from two to four weeks. Italy makes decided protest but no objection is made by the French delegate. The Commission, in view of the possible exchange speculation, issued a special injunction of secrecy. It is, however, obvious that all other Governments are informed. I therefore forward this as Governmental information and with special caution with respect to its confidential character.

DI ET:MVB ss

C O P Y

C 797

GREEN

Paris,

Dated, December 22, 1921.

Rec'd 3: 25 p. M.

Secretary of State,

Washington.

697, December 22, 1921, 5 p.m.

B-610. December 19th Germany paid Federal Reserve New York $2,070,020.60 equaling 8,689,667 gold marks on account of Belgian priority and announces payment to be made December 22nd for same account of $1,429,076.31 representing 5,500,000 gold marks. Boyden. December 22, 5 p.m.

HERRICK.

December 23, 1921.

PERSONAL AND CONFIDENTIAL

My dear Mr. Gilbert:

I thank you for your letter of December 21, enclosing for my personal and confidential information copy of a cablegram dated December 16, 1921, from Mr. Boyden, as to the conversion of the francs and lire to be paid Belgium, which I shall treat most confidentially.

Yours very truly,

Benj. Strong,
Governor.

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

GB.MM

e797

December 23, 1921.

PERSONAL AND CONFIDENTIAL

My dear Mr. Gilbert:

I thank you for your letter of December 21, enclosing for my personal and confidential information copy of a cablegram dated December 16, 1921, from Mr. Boyden, as to the conversion of the francs and lire to be paid Belgium, which I shall treat most confidentially.

Yours very truly,

Benj. Strong,
Governor.

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

GB.MM

C797

COPY

CONFIDENTIAL

PARAPHRASE OF TELEGRAM RECEIVED

From: American Embassy, Paris.
December 24, 1921, 3 P.M.
Received: December 25, 1.55 A.M.
No. 698.

This cable embodies a message from Boyden, B-611, referring to 604. Belgium agrees, at request of Italian and French Governments, to accept in equal amounts of Belgian francs and sterling the sums requested in dollars originally. The delayed conversion will immediately be undertaken now. BOYDEN.

HERRICK.

THE UNDER SECRETARY OF THE TREASURY
WASHINGTON

C 747

December 28, 1921.

CONFIDENTIAL

My dear Governor:

I enclose for your information a copy of a cablegram dated December 22, 1921, from the American unofficial representative at the Reparation Commission as to the German payments scheduled for December 19th and December 22nd.

Very truly yours,

S. W. Gilbert Jr.

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

1 enclosure

C 197

December 29, 1921.

Dear Mr. Gilbert:

I acknowledge with thanks receipt of your letter of December 28 enclosing copy of a cablegram from the American unofficial representative at the Reparation Commission.

The two payments mentioned therein were duly received for account of the National Bank of Belgium.

Very truly yours,

J. H. CASE,
Deputy Governor.

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

JEC/ELS

THE UNDER SECRETARY OF THE TREASURY
WASHINGTON

C 747

December 31, 1921.

CONFIDENTIAL

My dear Governor:

In connection with my letter of December 28, 1921, I enclose for your information a copy of a further telegram from the American unofficial representative with the Reparation Commission, with respect to the conversion of currencies payable to Belgium on account of reparations.

1/24/22

Very truly yours,

S. P. Gilbert

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

1 enclosure