

COPY - MD

FEDERAL RESERVE BANK
JAN 19 1922
MAILING DIV.

LM

GREEN

Paris,
Dated January 3, 1922.
Recd. 1:52 p.m.

Secretary of State,

Washington, D. C.

1, January 3, 4 p.m.

B 613. Germany paid \$1,745,605.11 December 30 through Federal Reserve Bank New York to National Bank Belgium on account Belgian priority. This sum represents conversion part paper marks received from customs duties and export taxes. Boyden. January 3, 4 p.m.

HERRICK



RECEIVED
JAN 5 1922
FEDERAL RESERVE BANK

C 747

CONFIDENTIAL

January 4, 1922.

Dear Mr. Gilbert:

Thank you for your letter of December 31 enclosing copy of a telegram from the American Unofficial Representative with the Reparation Commission with respect to the conversion of currencies payable to Belgium on account of reparations.

Very truly yours,

J. H. CASE,
Deputy Governor.

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

JRC/ELS

Paris

Dated January 10 1922.

Secretary of State

Washington.

8, January 10 4 p.m.

B 616. German Government announces following payments: \$3,100,000
Federal Reserve Bank, New York, 5,000,000 Belgian francs National
Bank Belgium, 5,000,000 French francs Bank of France, 845,000 pounds
sterling Bank of England.

All foregoing payments applicable Belgian priority and
represent conversion paper mark proceeds customs receipts and
export levy due January 1st. Total equivalent about \$7,625,000.
Actual completion above payments not yet confirmed. Boyden.
January 10 5 p.m.

HERRICK

462.00R29/1388



THE UNDERSECRETARY OF THE TREASURY
WASHINGTON

e-247

January 12, 1922.

GENERAL FILES
JAN 14 1922
CONFIDENTIAL.
FEDERAL RESERVE BANK
OF NEW YORK

ANSWERED

JAN 13 1922

W.A.S.

My dear Governor:

I enclose for your information a copy of
a cablegram dated January 10, 1922, from the
American unofficial representative at the Repara-
tion Commission as to unconfirmed German pay-
ments.

Very truly yours,

S. J. Gilbert

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

1 enclosure.

JAN 13 1922

U. S. T. C.



OFFICE OF
ASSISTANT SECRETARY

TREASURY DEPARTMENT

WASHINGTON

c 797

January 12, 1922.

Dear Mr. Case:

We have been sending from time to time copies of cables from Mr. Boyden relating to reparation matters. Since Mr. Strong has been ill I think this flow of cables has somewhat ceased. I write to ask whether you would be interested in receiving these cables in Mr. Strong's absence. If so, let me know and I will arrange so that they automatically go forward.

Yours very truly,

W. H. C. Braden
Assistant Secretary.

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

Yours

ANSWERED
JAN 13 1922
J. H. C.

From

Assistant Secretary Wadsworth's Office,
Treasury Dept.

Noted J

(COPY)

C 797

HCC

GREEN

Paris,

Dated January 12, 1922,

Rec'd 13th, 1:15 a. m.

CONFIDENTIAL FILES
JAN 30 1922
FEDERAL RESERVE BANK
OF NEW YORK

Secretary of State,
Washington.

12, January 12, 8 p. m.

Number 617. Pursuant reparation decision 1459 Commission turned over to Bank of England 150,000,000 paper marks Rhineland customs duties collected while sanctions in force March 8th, 1921, to May 1st, 1921. Conversion these paper marks completed January tenth realizing pounds sterling 376,078 which will be debited against costs British army and up to May 1st, 1921. Paper marks collected Rhineland customs from May 1st, 1921, to removal of sanctions in October not yet converted but still held in Rhineland banks. Payments cabled January 10th our B-616 now confirmed. Boyden. January 12, 9 p. m.

WSB

HERRICK

CONFIDENTIAL

By request of the State Dept. the data contained herein is for information of Treasury officials and is not to be given to any one outside of the Secretary's office.

c 797

January 13, 1922.

Dear Mr. Wadsworth:

✓
Answering your letter of January 12, I shall be glad to have you send to me, in the absence of Governor Strong, copies of cables from Mr. Boyden relating to reparation matters.

Very truly yours,



J. H. CASE,
Deputy Governor.

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

HAB

GENERAL FILES

JAN 14 1922

FEDERAL RESERVE BANK
CONFIDENTIAL

c 797

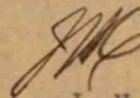
January 13, 1922.

Dear Mr. Gilbert:

I thank you for your confidential letter of January 12 enclosing copy of cablegram received from the American unofficial representative at the Reparation Commission.

The payment which the German Government announced as having been made to the Federal Reserve Bank of New York has been received by us for the account of the National Bank of Belgium.

Very truly yours,



J. H. CASE,
Deputy Governor.

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

WAS/MK

FEDERAL RESERVE BANK
JAN 19 1922
FILING DIV.

C197

GREEN

CW

Paris,
Dated January 14, 1922.
Rec'd 5:27 p.m.

Secretary of State,
Washington, D. C.

16. January 14, noon.

B-620. Reference our B-604 and B-611.

Adverse exchange has prevented any conversion Italian lire now invested Italian national bonds. French Government has transferred to Belgian Government French bonds nominal value about two hundred ten million francs market value about sixteen million dollars being investments of French francs mentioned our B-604.

Belgium agrees accept debit reparation account market value of bonds date of transfer and convert gradually as required. Hodge.

HERRICK

OX

COPY - MD

HCC

C 797

GREEN

Paris,

Dated January 18, 1922,

Rec'd 19th, 9:15 a.m.

Secretary of State,

Washington.

19, January 18, 6 p.m.

B-622. January 17th German Government directed payment account National Bank Belgium applicable Belgian priority following sums: \$2,429,297; one million pounds sterling; five million Belgian francs; four million French francs. This payment approximately equivalent thirty-one million gold marks apparently made compliance Reparation Commission's decisions at Cannes. Actual payment not yet confirmed. Boyden.

HERRICK

HPD

C797

COPY - MD

WP

Green

Paris

Dated Jan. 21, 1922.

Recd. 9:46 a.m. Jan. 22.

Secretary of State,

Washington, D. C.

26. Jan. 21, 5 p.m.

B 624. Payments mentioned our B 622 confirmed as made January 18.

Boyden.

HERRICK

CSB

Germany with the consent of the Allies.

(5)

The remaining 33 milliards shall be distributed as follows

France	22.0 milliards
Italy	4.25 "
Belgium	3.35 "
Serbia	2.2 "
Others Powers entitled to Reparation	1.2

(6)

The British and French Governments agree not to call for repayment of advances made during the War to Allied or Associated Governments signatory to the Treaty of Versailles unless and until, and in any event to no greater extent than they may be themselves called upon to make payments to the Government of the United States of America in respect of advances made to them by that Government, as the result of default by Germany in respect of her secondary liability of 65 milliards.

(7)

The Receipts from Germany in respect of the costs of the Armies of Occupation shall be distributed between Great Britain, France and Belgium on the basis of the maintenance in the British, French and Belgian Armies of men respectively, in the Occupied Areas, in the following percentages

France	50%
Great Britain	33.3%
Belgium	16.7 %

Any reduction in the number of men maintained shall entail a proportionate reduction in the amount to which each Power is entitled under this clause.

(8)

The Allies agree to cancel the liability of Austria and Hungary in respect of reparation under the Treaties of St. Germain and Trianon, respectively, and to reduce the liability of Bulgaria for reparation under the Treaty of Neuilly to 30 million pounds gold to be distributed as may be agreed between Italy, Serbia Roumania and Greece.

Heads of Agreement between the Allies themselves.

PART II.

Notwithstanding and without prejudice to anything contained in the Treaty of Versailles, or in any subsequent Inter Allied Agreement;

- (1) As from the 1st January 1922, no Ally shall be entitled to any further payment in respect of Costs of Army of Occupation up to that date.
- (2) No Ally shall be called upon to account for or to pay over to the Reparation Commission the value of any deliveries or payments received before the 1st January 1922.
- (3) All sums in the hands of the Reparation Commission on the 1st January 1922 resulting from undistributed Assets or from payments received either under the Schedule of Payments or the Treaty of Versailles shall be paid to Belgium. For the purposes of paragraphs (2) and (3) the sums distributed by the Reparation Commission since the 1st May, 1921, subject to agreements for repayment on demand of the Reparation Commission shall be regarded as having been distributed to and received by the Ally in whose hands the sums are in fact held on 1st January, 1922.
- (4) The share of the British Empire of the 35 milliards shall be 2 milliards which shall be regarded as One hundred million pounds which shall not bear interest for three years from the 1st January, 1922. Thereafter it shall bear interest at 5%. It shall be paid out of receipts under the Reparation Recovery Act, unless otherwise satisfied by

Germany

Reparation to which such Allied or Associated Power is entitled under any Allied Agreement of which Germany shall have been notified. The amount to be credited to Germany in respect of supplies made under such agreements to be determined by agreement between valuers appointed by each side subject to the approval of the Reparation Commission. In the event of disagreement or disapproval by the Reparation Commission by a neutral arbiter.

8. In the event of default by Germany this agreement shall be determined forthwith and the suspension of the obligations prescribed in the Schedule of Payments cancelled. Germany shall release to the Reparation Commission the bonds of Series A and B and C referred to in clause 6 and shall be entitled to the return of the Treasury bills referred to in Clause 5.

secondary liability and has paid by means of loans raised abroad in respect of her primary reparation liability during the year 1st January 1922 to the 1st January 1923 not less than 3 milliards gold marks.

"	"	"	1923	"	"	1924
"	"	"	1924	"	"	1925

TOTAL	20	"	"	"
-------	----	---	---	---

plus a sum of not less than 5 milliards by other means. The minimum to be paid by Germany in each year whether in cash or kind in respect of her primary liability shall be 3 milliards.

5. Germany shall deposit with the Reparation Commission as security for the payment of her Reparation liability under the agreement German 5% Treasury Bills to the value of 100 milliards.

6. During the currency of the agreement the German bonds of series A and B and C delivered under the Schedule of Payments shall be deposited to a neutral Bank in the joint names of Germany and the Allies, and the annual payments in respect of them and all other obligations prescribed by the Schedule of Payments shall be suspended.

7. Germany to agree, subject to the approval of the Reparation Commission, to enter into Agreements with any Allied or Associated Power for the supply of such material or commodities as may be required by the Allied or Associated Power within the total of the proportion of

Reparation

(e) The reconstitution of the Reichsbank so as to place it in a position to impose terms in according advances to the German Government together with the appointment to the Board of a neutral banker to be chosen by the Reparation Commission in agreement with the German Government without whose consent no advances should be made to the German Government.

(f) Customs duties on exports to be calculated in gold and paid in the equivalent in paper marks ruling at the time of clearance, such rate being fixed by the Reparation Commission at regular intervals not exceeding one week in accordance with market quotations.

(g) The internal price of coal to be raised to the extent required by the Reparation Commission so as to bring it into reasonable relation to the world price.

The amount of the annual payments provided for by the Schedule of Payments, which are postponed, shall bear interest at 5% during the moratorium period, such interest being added to the capital of the debt.

3. Germany's liability for the costs of the Armies of Occupation up to the 1st January 1922 to be regarded as discharged. After the 1st January 1922 her liability to be limited to 120 millions gold marks plus the value of "prestations" and of the cost of the U.S. Army.

4. The Allies to withdraw the Armies of Occupation not later than the 1st May 1925 provided that Germany is not in default in respect of any payment due under her

secondary

Proposals for the Reconstruction of the
Arrangements for Reparation by Germany.

PART I. Heads of Agreement between the Allies and Germany.

1. Germany's total liability for reparation as on the 1st January 1922 shall be limited to 100 milliard gold marks. Of this amount, 35 milliards shall represent a primary liability which shall be discharged within years. Germany's liability with respect to the remaining 65 milliards shall be secondary and contingent and shall mature as and when, and to the extent to which, any Allied or Associated Government signatory to the Treaty of Versailles is called upon to re-pay to any other Allied or Associated Government advances made for War purposes during the War, the amounts thereof respectively to be recognised and agreed.

2. Germany to balance her budget and to cease the further issue of notes at the earliest possible moment, and to issue loans the proceeds of which shall be applied to the payments to be made under this Agreement.

Germany to agree to -

- (a) Complete withdrawal within such period as may be determined by the Reparation Commission of the food and railway subsidies.
- (b) Increase in postal charges sufficient to cover the deficit in postal administration.
- (c) Increase in taxation in the manner and to the extent required by the Reparation Commission.
- (d) Such reduction as may be required by the Reparation Commission in expenditure on administrative services.

(e)

8. The internal price of coal in Germany to be raised not later than 1st March, 1922, to a figure not less than three-fourths of the world price of coal and to be kept thereafter up to such proportionate figure.

9. Committee of Guarantees to work out in co-operation with the German Government a plan for giving adequate security for foreign loans to be raised by Germany, and such loans to be issued with the approval of the Reparation Commission.

III MISCELLANEOUS.

(1) The Post-Armistice and Reconstruction Debt of Belgium and any other Post-Armistice Debts due to the United Kingdom and France to be funded in the form of 5% Bonds with 1% per annum for sinking fund.

(2) The question of writing off the Reparation Debt of Austria and Hungary and reducing the Bulgarian Debt from £90,000,000 to (say) £30,000,000 to be carefully considered without delay.

(3) Russian Debts not to be included in the General settlement but to be separately considered.

(so long as she is not in default) for any sum exceeding 180 million gold marks per annum (plus "prestations etc.") for the British French and Belgian Armies. The cost of the United States Army of Occupation both before and after 1st January, 1922, to be treated as a matter for agreement between the United States of America and Germany.

II. GUARANTEES.

In consideration of the suspension of the Schedule of Payments, Germany to agree to the following conditions, the due fulfilment of which shall be supervised by the Reparation Commission which shall have the right, if it is of opinion that Germany is not observing the conditions, on giving three months' notice, to terminate this agreement and to revive the Schedule of Payments:-

1. Budget to be balanced as soon as possible and in no case later than the Budget of 1924.
2. All subsidies to cease not later than 1st July, 1922.
3. All budget deficits, so long as they exist, to be covered by internal loans, other than Treasury Bills discounted with the Reichsbank.
4. Debt to the Reichsbank to be progressively reduced.
5. Reichsbank to be given a due measure of independence (under the supervision of a Neutral Adviser to be appointed by the German Government in agreement with the Reparation Commission).
6. No new issues of Paper Currency to be permitted beyond a maximum to be fixed forthwith, and steps to be taken at an early date to introduce a new currency unit in place of the paper mark.
7. Customs Duties to be collected in gold.

consideration the sums already received in cash, kind, and ceded property, etc., by the individual powers up to 31st December, 1921 inclusive; each Allied Power to retain the receipts which are in fact in its hands on 31st December, 1921 and not to be called upon to account for them to the Reparation Commission.

The Spa Percentages unmodified would give

France $\frac{52}{78}$ ths = 66.6% = 26.66 milliards

Italy $\frac{10}{78}$ ths

Belgium $\frac{8}{78}$ ths etc.

(f) Each Power entitled to a share in the 40 milliards to be allowed to negotiate, subject to the approval of the Reparation Commission, agreements for deliveries in kind up to the amount of its share at any time remaining unpaid, safeguards as to valuations being provided for by requiring valuations to be made by one valuer for Germany, one for the recipient Power, and an Umpire appointed by the Reparation Commission.

(g) Germany to agree to use her best endeavours to raise by international loan operations sums of not less than

3 milliards in 1922

7 milliards in 1923

10 milliards in 1924

10 milliards in 1925

and the Allied Governments to agree to withdraw their Armies of Occupation not later than 1st May 1926, if before 1st January 1926 Germany has discharged, with interest, 35 milliards out of the 40 milliards, plus any sums payable by her up to that date in respect of her contingent liability of 65 milliards.

(h) The cost of the Armies of Occupation other than that of the United States of America up to 31st December 1921 to be regarded as satisfied by the payments made up to that date, and as from 1st January, 1922, Germany shall not be liable

when notice is given, pari passu with any German Government obligation then outstanding.

(c) The Governments of the United Kingdom and France to agree that they will demand payment of debts owed to them by other Allied Governments only if and in so far as they (i) are themselves called on by the United States Government to make payment and (ii) fail to recover from Germany.

(Taking the Inter-Allied War Debts as being approximately 40 milliards due to the United States of America, 20 milliards due to the United Kingdom, and 5 milliards due to France).

(d) of the remaining 45 milliards due from Germany, 5 milliards to be converted into a sterling debt of £250,000,000 to the British Government carrying no interest for 3 years and thereafter, interest at 5% per annum payable half-yearly. This debt to be satisfied during the first 3 years out of the proceeds of the Reparation (Recovery) Act Levy or any similar levy imposed by any British Dominion or Colony (subject to a first charge on the British levy for the costs of the British Army of Occupation) or by means of such deliveries in kind as may be agreed with the German Government with the approval of the Reparation Commission and thereafter in such manner as may be agreed upon. Payments in respect of this £250,000,000 to be divided as to 10% to the British Exchequer and as to 90% to the Dominions etc. (including Ireland).

(e) The remaining 40 milliards to carry interest at 5% per annum payable half-yearly and to be divided among the Allied Powers (other than the British Empire) in accordance with the Spa Percentages, subject to such modifications, if any, as may be agreed upon after taking into

consideration

Private & Confidential

GERMAN REPARATION

Plan for a final settlement.

The following plan is put forward as a basis of discussion rather than as representing a final and considered judgment on the subjects with which it deals.

① "The central feature is the suggestion that Germany should accept a liability for all Inter-Allied Debt, such liability being contingent upon the extent to which creditor Governments call upon debtor Governments for payment," and that in consideration for Germany's accepting this contingent liability the amount of Germany's Reparation Debt should be reduced by the full amount of the Inter-Allied Debts.

I. REVISION OF GERMANY'S REPARATION LIABILITY.

Starting from original reparation debt of 132 milliards (subject to certain adjustments), and in order to cut short interminable accounting complications and valuation disputes, it is proposed that

(a) non-German reparation shall be regarded as amounting to 25 milliards, and the payments already made by Germany up to 31st December 1921 inclusive as reducing her outstanding debt as on 1st January 1922 to exactly 110 milliards.

(b) In satisfaction of 65 milliards of this debt Germany to accept a contingent liability to pay on demand any principal or interest in respect of Inter-Allied War Debts which any creditor Government may exact from any debtor Government. Obligations of the German Government payable at one month's notice to a total of 65 milliards to be deposited with the Reparation Commission to rank, as and when

notice

ACKNOWLEDGED

ACKNOWLEDGED

FEB 18 1922

B. S.

FEB 12 1922

Treasury Chambers,
Whitehall, S.W.

25/1/22

My dear Strong,

Belated but hearty good wishes to you for 1922. If the U. S. A. will use some of her gold in 1922 in expanding credit & lending abroad, we may see revival of the European currencies along with sterling firmly at par by Jan. 1, 1923. The biggest lion in the path is the Inter-Allied debt problem. My own view has always been that

Britain ought to take the lead,
cancel Europe's debt to her
& insist on paying hers to
the U.S.A. But that has not
yet found complete favour.
Meanwhile I should be much
obliged if you could look at
the enclosed, & if you can express
an opinion on its main features,
& particularly on what view
the U.S. would take of such
a plan. With renewed good wishes

Yours ever

Brill. Hacked

HCC

GREEN

Paris,
Dated January 30, 1922,
Rec'd 9:22 a.m.

Secretary of State,

Washington.

41, January 30, 10 a.m.

B-627. German Government January 27th ordered following payments made to National Bank Belgium account Belgian priority: 38,000,000 Belgian francs, 1,000,000 dollars, 250,000 pounds sterling, 20,000,000 French francs.

Foregoing second payment 31,000,000 gold marks every ten days conformity decision commission January 13th. Payments not yet confirmed. Hodge.

HERRICK

CSE

HCC

GREEN

Paris,
Dated January 31, 1922.
Rec'd 1:24 p.m.

Secretary of State,

Washington.

44, January 31, 3 p.m.

B-628. Reference my B-627. Payment sums mentioned now confirmed.
Also additional nine million French francs. Total approximate value
thirty-one million gold marks. Boyden.

HERRICK

Re payments to National Bank Belgium ordered by German Government.

LM

COPI - MD

HCC

GREEN

Paris,
Dated Feb. 8, 1922.
Recd. 12:31 p.m.

Secretary of State,

Washington.

57, February 8, noon.

B-632. German Government February seventh ordered following payments made to National Bank Belgium account Belgian priority; 34,000,000 Belgian francs, \$1,000,000, 5000 pounds sterling, 17,005,000 French francs. Approximate gold mark value above amounts 30,810,899. Foregoing third payment 31,000,000 gold marks every ten days conformity decision commission January thirteenth. Payments not yet confirmed.
Boyden.

HERRICK

W3B

HCC

GREEN

Paris,
Dated February 9, 1922
Recd. 2:46 p.m.

Secretary of State,

Washington.

64, February 9, 3 p.m.

B-633. Bank of England advises pursuant to instructions Commission paid British Government, January 14th, \$58426.16 from reparation funds. Above represents balance proceeds deliveries dye stuffs Textile Alliance prior May first due England account army costs.

BOYDEN

HERRICK

HPD

COPY - MD

GREEN

Paris,
Dated February 14, 1922
Recd. 2:36 p.m.

Secretary of State,

Washington.

70, February 14, 4 p.m.

B-635. Our B-632. Payment sums mentioned confirmed and additional
500,000 Belgian francs National Bank Belgium. Total payments February
8th approximately 30,968,000 gold marks. Boyden.

HERRICK

WSB

JAMES A. LOGAN

ACKNOWLEDGED
MAR. 9 - 1922
B. S.

PERSONAL & CONFIDENTIAL

Paris, 18 rue de Tilsitt.
16 February 1922.

My dear Ben,

I am just back in Paris after a very rough ocean trip and am once more settling down in harness. Needless to say I have not as yet had opportunity to get into full touch with the situation as it exists today.

The present reparation position is as follows. On January 13, 1922, the Germans were invited to Cannes by the Supreme Council. At that time they had not yet replied to the Reparation Commission letters of December 2nd and 16th 1922, the latter of which stated the information required before the Commission could consider the request for a postponement of payment made on December 14th by the German Government in respect of part of the instalments under the Schedule of Payments for January 15th and February 15th.

The Reparation Commission was present at Cannes. The Supreme Council expressed the wish that the German Delegation should first be heard by the Reparation Commission sitting as such, and the Commission in consequence on January 11th gave the German Delegation a formal hearing. The following day, January 12th, the German Delegation was heard by the Supreme Council in the presence of the Reparation Commission. While Herr Rathenau was making his statement, however, news arrived that M. Briand, the French Premier, had resigned, and there was therefore for the moment no French Government in existence and none, in consequence, represented on the Supreme Council. In these circumstances, the British Premier, acting as Chairman of the Conference in M. Briand's absence, stated that the only body which continued to possess the necessary authority to treat with the German Delegation was the Reparation Commission. The Commission therefore met unofficially, both the same evening and the next morning, January 13th. At the second meeting, January 13th, Sir John Bradbury prepared a draft decision based on the previous unofficial discussions. That same day the Chairman of the Reparation Commission, at the request of Mr. Lloyd George, informed the remaining members of the Supreme Council that the Reparation Commission was on the point of reaching a decision with regard to granting the German Government a temporary postponement and the conditions of this postponement. The Commission then met formally and took the decision (see Exhibit "A" herewith) which was immediately communicated to the members of the Supreme Council, and immediately thereafter, in the presence of the Supreme Council, communicated to the German Delegation by the Chairman of the Reparation Commission.

JAMES A. LOGAN JR.

-2-

Loose in file

Enclosed herewith is a copy marked Exhibit B of the Germans' scheme of budget and currency reform which the latter were required to submit to the Reparation Commission in accordance with sub-paragraph b of Exhibit A.

It will be observed that the decision taken is only provisional in character and somewhat of a makeshift. As a matter of fact the Supreme Council prior to the receipt of the news of the fall of the Briand Ministry had practically reached agreement on the basis of the enclosed draft decision, marked Exhibit C, which had been discussed at length in informal Committee meetings with the German Government representatives including Rathenau. As a matter of fact the Germans after a good deal of reluctance had accepted this settlement which also had been agreed to in the Committee meetings by all of the Allied representatives including the French. Therefore, had the Briand Ministry remained in power, in all probability this draft would have been adopted at Cannes.

While it is impossible to accurately forecast the future policy of the Allied Governments with reference to the immediate reparation settlement, my own judgement of the situation is about as follows. The Poincaré Government, which has already shown its disinclination to participate in meetings of the so-called Supreme Council, will probably insist that the decision be left to the Reparation Commission under its powers under sub-paragraph c, paragraph 13, Annex II, Part VIII of the Treaty. Presumably the British Government will agree provided they feel satisfied of being able to carry substantially the proposals contained in Exhibit C by a majority vote in the Commission. However, the position of the French Chairman who is pretty independent and who did not participate in drafting Exhibit B is not altogether clear. Unquestionably the ultimate decision, if left to the Commission, while following the broad lines indicated in Exhibit C will nevertheless vary in some of its minor details. I am inclined to believe that the cash payments set forth in Exhibit C will hold, but I am far from being convinced that the deliveries in kind will reach anywhere near the value set down as representing such deliveries. I don't believe Germany can make deliveries in kind of this value, and even if she could I doubt if the Allies could receive and absorb such a volume.

My impression is that the British are quietly working endeavoring to influence the other voting members of the Commission, not only the French but also the Belgians and Italians, to the adoption of a scheme following the general lines of Exhibit C. I believe that in view of the practical commitments to the Exhibit

JAMES A. LOGAN JR.

-3-

C solution at Cannes and with the reluctant acceptance by the Germans of this solution, that the Commission will find it convenient to adopt such line of action.

Faithfully yours,

James A. Logan Jr.

JAL/BD

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

February 17, 1922.

Dear Waddy:

2/18/22
2/19/22

I have just received copies of two cables respecting reparation payments, doubtless coming from you, for which I am very much obliged, and which I hope you will continue to send me as we really find it important to keep posted on how these matters are progressing.

Yours sincerely,

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

BS.MM

CONFIDENTIAL

February 18, 1922.

My dear Blackett:

Thank you for your nice letter of January 25^X, and the confidential memorandum which you send me, and which I have only to-day been able to read carefully.

I warmly reciprocate your good wishes for 1922.

Our policy as to credits, it seems to me, has developed pretty clearly and should be obvious to observers abroad. Almost at no time in my memory have we had such a bond market as at present, and the market for foreign loans seems to be improving steadily. They, of course, come into competition with domestic loans which are preferred because of better knowledge of and greater confidence in the security by investors; but hardly a week passes that one or more foreign loans are not successfully placed here. In addition, bank credits are available for all purposes which are regarded as legitimate and good. The development has been a natural one, has not been forced by artificial expedients involving danger to our banking or currency system, and so long as credit remains abundant and rates comfortable, as at present (compared with those of recent years), I see no reason to anticipate curtailment of credit available to good foreign borrowers. All of this I believe to be one of the important influences leading to the recovery in sterling and some other foreign exchange rates.

Before foreign loans could enjoy a wide market here, the great volume of our undigested war loans had to be absorbed. They were all issued at par, and some were selling only recently in the 80s. Most of them have now recovered to nearly par, and are daily being "put away" in large quantities. As our own domestic securities are taken out of the market and out of bank loans by investors,

February 18, 1922.

the market should broaden still further. My friend Norman is fully advised of my personal views and of our policy with respect to this development, and so far I think, without being vainglorious, we can claim to have realized some success in assisting toward the recovery of the value of foreign currencies, measured in dollars.

You have sent me a rather difficult memorandum to comment upon, and after consideration, I do not think I should express any views as to the detail of the scheme therein outlined. My knowledge of the situation abroad, while possibly more complete than some who express opinions in the press, is nevertheless not adequate to give any definite judgment as to Germany's ability to pay, nor as to the equities in division of payments, etc., among the Allied governments; so I shall only comment upon the recital in the preamble which reads:

"The central feature is the suggestion that Germany should accept a liability for all Inter-Allied debt, such liability being contingent upon the extent to which creditor governments call upon debtor governments for payment ****"

My interpretation of this is that the author of the memorandum expects the United States Government to press for payment of its claims against the Allied Governments; but that the Allied Governments intend to press for payment among themselves only to the extent that the United States presses for payment.

Disregarding all of the other provisions of the memorandum, this seems to suggest that in case the United States Government calls upon the Allies to pay their debts to it, the Allies shall at once make demands of equal extent upon Germany, and in case Germany does not respond, the creditor Allied Governments shall make claims upon the debtor Allied Governments.

Please understand that my comments are strictly my own; that I have no information at the moment of any program by our Government; and could not in any event speak for the officers of the Government. The comments would be as follows:

This would appear to be an ingenious method of transferring pressure upon Germany through the Allied Governments now debtor to us, and would seem to me likely to be a cause of dispute and bad feeling in case it were attempted. It

February 18, 1922.

seems to make the payment of reparations to the extent of 65 milliards, contingent upon its being forced upon Germany by demands of equal amounts made by the United States upon Allied Governments. Frankly, it strikes me it is not calculated to facilitate the adjustment of this difficult matter.

You should possibly consider the present situation in this country. Congress has passed a bill extending only limited powers to a commission of five, to be appointed by the President, to negotiate an adjustment of indebtedness owing to this Government. The limitations imposed upon the commission indicate the mind of Congress, which is that the debt should be paid; that the interest should be not less than provided by existing law; that the obligations should mature in not longer than 25 years; and that the obligation of one government should not be taken in settlement of the debt of another government. (I am not attempting a recital of all of the provisions as you doubtless have them before you.) The last is important in its bearing upon your proposal. It seems to me it evidences a desire upon the part of Congress to prevent our getting into a position where our claims may be converted, directly or indirectly into claims upon Germany. Of course, the Allied Governments have the right to enter into any arrangement among themselves that they please for effecting an adjustment of the Inter-Allied debt. There is nothing in the funding bill which intimates that it is the intention of Congress that the officers of our government shall interpose as to any such arrangements. You will find, however, in reading the record of the hearings before the Senate and House committees that there appear to be strong objections to any plan for swapping debts, and the point I make in regard to the sentence quoted above is simply the practical one of avoiding the creation of a situation by the making of formal agreements which might in any way hamper or embarrass perfect freedom in dealing with the whole subject. I am not arguing the merits of the question, but simply stating the facts.

My understanding of public opinion in this country at the present time is somewhat as follows:

Demands for government economy are insistent. The same is true for tax reductions. The need for further revenues enlarges, as estimates indicate a deficit in our budget for the coming financial year. Congress seems insistent upon passing a bill authorizing the payment of large bonuses to those who served in the war, which may add to the liabilities of the government anywhere from two to five billion dollars. There is no general public understanding of the ability of the debtor nations to pay, nor of what economic disturbance might result from successful collection. The President is reported to have definitely advised members of Congress that he is opposed to any plan for making the payment of bonuses to soldiers contingent or dependent in any way upon the collection of debts owed us by the Allied Governments. There is a section of public opinion, how much can not be estimated, which favors cancellation all around. Another section which favors forgiveness of interest for a long period, five to ten years even. They are not vocal, and it is charged that these views are selfishly held by those who are themselves interested in securities of foreign governments and fear that their's will not be paid if our government insists upon the collection of debts owing to it. From this you will gather that there is a confused public opinion here, and, as I firmly believe, very little real knowledge of the facts, in or outside of Congress. Now that the funding bill has passed, I think my judgment is that the best course from now on, both for our government and for those governments which are indebted to us, will be to promptly undertake negotiations and insure that the commission gets both all the facts, and a thorough knowledge as well of the economic problems wrapped up in the matter of debt collection, including reparations. In general I should say that an agreement by the parties other than the United States which appears to be designed to transfer pressure upon Germany would be unfortunate. What is more needed in this country than anything else just now is real knowledge of these matters. The Commission affords the means for conveying it. If it might superficially appear that our attitude towards some of these difficult matters is selfish or inspired by any antagonism or animus, I think you should promptly dismiss the thought. My belief is that ignorance explains most of our difficulties

February 18, 1922.

and it is a most natural ignorance when one considers our distance from the scene of affairs and our lack of constant contacts such as you have and we have not.

These expressions would not be complete without my adding one word, which I am sure you will not misunderstand. For the past year, and longer than that, some of the most responsible men in the country who are not only impartial, but even friendly to the various Allied Governments, have begun to question the wisdom of generous policies in these matters, so long as evidence of extravagance in Government finance by some of the debtor nations continues to be so obvious. This especially relates to the maintenance of large military establishments, to the payment of doles, and to financing by printing money rather than by taxes, loans, etc., etc.

While indulging in these confidential and discursive comments, growing out of your letter, let me add the following purely personal views:

I believe the Treaties now submitted to our Senate, as the result of the Washington conference, will probably be promptly ratified after discussion. It may take some time. If it is the desire of the foreign governments that our government should participate in a conference to discuss economic matters, I can not help but feel that the Treaties must first be ratified before an answer should be expected from Washington. This simply means that it might be opportune to delay the Genoa conference for some months, as press despatches now indicate may be done.

I also think that it will be inopportune for such a conference to discuss the terms of settlement of the Inter-Allied debt, (as to the United States), except through the newly constituted commission, which I am confident will be a good one.

The outstanding public question in this country to-day is the distress of the farmers. It is both economic and political. We have a most important election in November when a considerable part of the Senate, and over two-thirds of the members of the House of Representatives, come up for re-election. It is difficult to deal with questions of a character requiring important legislation at a time when an election of this character is pending. All of these economic questions seem to

February 18, 1922.

be reflected back in one respect or another, to the plight of the farmers, which has been most deplorable. I can not help but feel that the officers of some of the foreign governments interested in these questions may not always be as well advised as is desirable as to political conditions in the United States. You doubtless heard, for instance, of the Administration and Congress being "bull-dozed" by a so-called agricultural bloc, through the exercise of the power to defeat legislation without any power to pass legislation. Notwithstanding that some of the members of this group in Congress have bitterly criticised me personally, I must frankly state that I have a great sympathy for their difficulties. There are a number of states in this country where over 75 per cent of the value of the produce is agricultural, and where financial paralysis has overtaken a large proportion of the population. Their representatives in Congress are subject to tremendous pressure from home to adopt measures to relieve this distress. The measures they propose may not always be wise. My experience with them has been that most of these men desire to be reasonable and are honest, striving with a situation which, frankly, is too difficult for them, and would be too difficult for me to solve were I in their position. Can men in these circumstances be expected to pass legislation to forgive or greatly reduce \$10 or \$11 billions of debt at a time when the burden of heavy taxation is felt and when distress of that character prevails? It seems to be only human nature that they should hesitate to do so until they are pretty well assured that its collection will result in more hardship than would forgiveness or deferment.

In the long run, as I have repeatedly stated, when the people of this country know the facts, they can be relied upon to deal honorably and even generously with such a matter as this foreign debt. I dread the possibility of our drifting or being gradually maneuvered into the position because of political or other conditions abroad, or possibly because of our own ignorance of insisting on the one hand that our recent Allies must pay what they owe us in full, while at the same time we may seem to be complaining that those same nations are insisting too

igorously that Germany, our recent enemy, must pay debts so justly owed. One

February 18, 1922.

final word. I am writing this long letter for the purpose of expressing the view that much which may make you restless about our attitude may be due to the ignorance of our public; that under those conditions delay in pressing questions for decision is always wise; and that certain special conditions now existing, other than the ignorance I refer to, make it peculiarly desirable that no haste be made in pushing plans to alter the status of these matters, except it be after deliberate examination of the facts and a start in negotiations through our Commission.

You see I have taken your invitation as excuse for writing you a lecture, for which I apologize, but which I know you will appreciate is sent in the friendliest possible spirit of helpfulness.

With best regards, I am,

Faithfully yours,

Sir Basil P. Blackett,
Treasury Chambers,
Whitehall S.W.,
London, England.

BS.MM

TREASURY DEPARTMENT,

OFFICE OF ASSISTANT SECRETARY,

Feb. 21, 1922.

To Governor Strong

from Mr. Wadsworth.

ACKNOWLEDGED

FEB 23 1922

B. S.

Secretary of State,

Washington.

B-636. German Government February sixteenth advises made following payments reparation account:

Twenty-five million Belgian francs, three hundred thousand pounds sterling; thirty million French francs, one million four hundred thirty thousand dollars. All effected through Reichsbank except one million four hundred thirty thousand dollars made by Devisenbeschaffungstelle. Foregoing to meet thirty-one million gold marks payment due February eighteenth under decision commission January thirteen. Payments not yet confirmed.

BOYDEN

WSB

PLAIN

Paris,
Undated,
Recd. February 18, 1922,
10:20 a.m.

HCC

GREEN
Paris,
Dated Feb. 22 , 1922
Recd. 12:06 p.m.

Secretary of State,

Washington.

83, February 22, 3 p.m.

B-637. Our B-636. Payments mentioned confirmed. Germany further paid January thirtieth 13,848 dollars 44 cents federal reserve credit national bank Belgium. Belgian priority amount due customs exports receipts November prior reparation commission decision January thirteenth.

Boyd.

HERRICK

C797

February 23, 1922.

Dear Waddy:

The copies of the two cables dated February 14, and 18, with respect to reparation payments, have been received, and I appreciate your courtesy in forwarding them for our confidential information.

Yours sincerely,

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

JAMES A. LOGAN JR.

ACKNOWLEDGED
MAR 9 - 1922
R. S.

Paris, 18 rue de Tilsitt.
24 February 1922.

PERSONAL & CONFIDENTIAL

My dear Ben,

Loose in file

I enclose herewith the following documents, viz:

Exhibit A - Annex C.G. 134d, which is a Comparative Study of the Burden of Taxation in Germany and France by the Information Service of the Reparation Commission. This report shows the difficulty in arriving at any definite conclusion on this subject. A consideration of this question is made incumbent upon the Commission by sub-paragraph b, paragraph 12, Annex II of Part VIII of the Treaty. A cursory examination of the document enclosed herewith demonstrates the difficulty of this task.

Exhibit B - A Statistical Examination of the German National Budget of Expenditures for 1921/22 and 1922/23. A casual examination of some of the items set forth on pages 15 to 23 inclusive opens criticism that the German Government "is doing business as usual" without reference to its position vis à vis the reparation settlement. Items marked with green pencil on page 18 are specially illuminating.

Exhibit C - Annex 1267 is the Report by the Committee of Guarantees' Berlin Delegation on the Measures of Control over Foreign Bills Bought in the Open Market.

Exhibit D - Annex 1247 is a copy of the Report Requested from the German Government by Decisions Adopted by the Reparation Commission on January 13, 1922. (In this connection see sub-paragraph b of Annex A enclosed with my letter to you of February 16th).

Exhibit E - Annex 1282 are the Remarks by the Intelligence Service of the Reparation Commission in Connection with the German Memorandum, Annex 1247a. (See Exhibit D above and especially sub-annex 2 of annex I therewith).

Exhibit A with my letter of February 16th sets forth the provisional payments to be effected by the Germans. The Germans, to date, have met the January 18th, January 28th, February 7th and February 17th payments. In other words they have paid over, to date, 124 million gold marks. From what I gather the Germans are only in a position to continue to make payments under this provisional arrangement on the following dates, viz: February 27th and March 9th, and perhaps

JAMES A. LOGAN JR.

-2-

March 19th. On this latter date they will be at the end of their string. The present downward trend in the value of the paper mark indicates this time as being about the breaking point. Our best observers in Germany confirm this view and from what I gather the Germans are now preparing to inform the Commission accordingly. I hope that before this time the question will be referred by the Allied Governments to the Reparation Commission and that this latter body will see the light and base German payments for this year on Germany's capacity. The amount which will have been paid by March 19th, according to my estimate, will be approximately 200 million gold marks which is the same figure which Germany offered last December as being their best cash payments on account of the January 15th and February 15th instalments under the Schedule of Payments of May 5, 1921.

I believe that the Allied Governments hope that the Commission's decision for this year will be based on the unconfirmed Gannes Conference basis (see Exhibit C to my letter of February 16th). I personally question whether Germany is in a position to reach the Gannes figures on "reparation" payments. As a matter of fact in addition to the "reparation" figures mentioned, approximately 30 million gold marks per month throughout the year must be made forthcoming on account of "clearing of ice" transactions.

in addition

Faithfully yours,

James A. Logan Jr.

JAL/BD
Incls.

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

Paris,
Dated February 28, 1922
Recd. 3:30 p.m.

Secretary of State,
Washington.

92, February 28, 4 p.m. B-640.

German Government February 27th advises following payments:

Belgium applicable priority:

22,000,000 Belgian francs, 1,100,000 pounds sterling, 7,500,000 French francs through Reichsbank except 16,000,000 Belgian francs by *Devisenbe schaffungsstelle*. Foregoing approximately 31,193,751 gold marks to cover payments due February 28th and part payment deficit 609,449 gold marks overdue February 18th leaving deficit on ten day payments 415,698 gold marks. Payments not yet confirmed. Boyden.

HERRICK

WSB

ACKNOWLEDGED

JAMES A. LOGAN JR.

MAR 28 1922

Paris, 18 rue de Tilsitt.
3 March, 1922.

B. S.

PERSONAL & CONFIDENTIAL

Dear Ben,

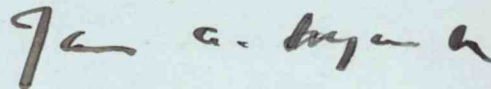
Loose in file

I enclose herewith Weekly Reichsbank Statements covering the period January 14th up to and including February 15th 1922. It occurs to me that you may find this information useful in this form. If so I will be glad to keep sending you copy of the weekly statements as they appear. If they are not useful and if you have the information from other sources please let me know and I will not forward them.

The present downward trend in the value of the paper mark indicates clearly that an early revision of the figures for German reparation cash payments is imperative. The matter was brought up this morning in the Commission at the instigation of the British and it was agreed to hold formal conversations between the Delegates commencing the first of next week on this most important subject. The present provisional schedule of payments under which the Germans are operating was enclosed with my letter of February 16th as Exhibit A. I still maintain the views expressed in the last half of my letter of February 24, 1922.

Faithfully yours,

JAL/BD
5 incls.



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

C797

Green

Paris

Dated March 5, 1922

Received 5th 9:45 a.m.

Secretary of State,

Washington.

96 March 5, 1922 a.m.

B-641 February 22 commission paid Great Britain

158,000 Danish crowns proceeds sale German aeronautical material,

approximate value 6,389 pounds sterling applicable British army costs

prior May first.

Payments mentioned my B-639 confirmed. Boyden.

HERRICK



TREASURY DEPARTMENT,

OFFICE OF ASSISTANT SECRETARY,

March 9, 1922.

To Governor Strong-----

from Mr. Wadsworth.

Green

Paris,

Dated March 6, 1922

Received 11:54 a.m.

Secretary of State,

Washington.

98 March 6, 4 p.m.

B-642. Bank of England notified Commission February 27th
23,106 pounds sterling equivalent twenty million paper marks proceeds
sale war material received and applied against British army costs prior
May first.

Boyden.

HERRICK

WSB

copy

March 9, 1922.

My dear Logie:

I am more than grateful to you for your letters of February 16 and 24, which I have read with a great deal of interest; but so far have not had time to go over the enclosures which accompanied them. As I am leaving to-day for a ten days pleasure trip, it may be some time before you get any comments on these documents.

What you say about the course of the mark hereafter, expresses just about the feeling that I have had myself. Sorry to hear that you had such a rough trip over. The same report comes to me from everybody. The ocean is not behaving well this winter at all. Please give my best regards to Boyden, and the same to yourself.

Sincerely,

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

BS.MM

HCC

GENERAL FILES

MAR 17 1922

FEDERAL RESERVE BANK
NEW YORK

C-797
GREEN

Paris,
Dated March 9, 1922
Recd. 10:15 a.m.

Secretary of State,

Washington.

104, March 9, 10 a.m.

B-644. German Government March 7 announces following payments by Reichs Bank to National Bank Belgium, Belgian priority: Belgian francs 4,000,000, pounds 1,400,000, French francs 7,500,000 approximately 30,253,340.86 gold marks. 609,449 gold marks mentioned our B-640 as overdue February 18th now reported as over payments. Revised figures indicate total of 932,815.45 gold marks overpaid between January 18th and February 28th. Boyden.

HERRICK

WSB

ACKNOWLEDGED

MAR 28 1922

JAMES A. LOGAN JR.

Paris, 18 rue de Tilsitt. B. S.
10 March, 1922.

PERSONAL & CONFIDENTIAL

My dear Ben,

The difficulties of the continued payment by Germany of 31 million gold marks each ten days as provisionally fixed after the failure of the Cannes conference are now being presented acutely as registered by the continued decline in the value of the paper mark. Germany has just effected the payment of her instalment due March 8th with the effect which you have perhaps noted on her exchange position. She may be able to make her March 18th payment but this can only result in a further fall in exchange. If any attempt be made to continue payments at the present scale after March 18th, I am satisfied it can only be accomplished with most disastrous exchange results.

The Reparation Commission had an informal meeting last week when the situation was discussed. All except Dubois the Frenchman were in favor of putting the brakes on the demands of Germany for payments and reverting without delay to the schedule of payments in the Cannes project, (see Art. 6, Exhibit C with my letter to you of February 16th). Dubois expressed himself as being strongly opposed, giving every indication that in the event of a vote he would be formally opposed.

On the other hand, French officials, including de Lasteyrie, appear willing to revert to the Cannes schedule. They do not say this publicly for under the Poincaré policy of putting the decision up to the Reparation Commission they have practically transferred responsibility vis à vis French public opinion to the Commission and particularly Dubois. Dubois is a French political leader not directly affiliated with the Poincaré party and it will therefore be interesting to see if and when the vote is forced (which I expect shortly) he will maintain his present position, reaping any glory that there may be in it with the French public, or perhaps even resigning or bowing to the majority. I am satisfied that the Cannes figures will be shortly adopted by a majority vote and I have few tears to shed and only a small floral tribute to place on Dubois tomb if he decides to suicide.

Obviously the Cannes figures are only a temporary palliative designed to tie the situation over for a few months. Germany can only meet the cash payments involved under the Cannes schedule up

until say August of this year, and therefore we must expect another breaking point in cash payments and further conversations at that time. It is a pity that German payments cannot be settled once for all, but apparently this is impossible, political exigencies prevent any other solution than that of approaching the ultimate goal by a series of jumps. The fact must not be lost sight of that in addition to the demands on Germany for foreign exchange on account of reparation payments, there exists the Treaty requirements of the "clearing office payments" which involve the payment of an additional 35 million gold marks per month. This Germany is now meeting and must continue to meet up until March 1923 at least. There was also a payment made under Article 58 of the Versailles Treaty on account of Alsace-Lorraine liquidations on December 15th last of 10 million francs. There is an outstanding balance on this latter account of approximately 90 million francs to be paid this year.

Faithfully yours,

JAL/BD

John A. L. Jr.

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

COPY

Mr. Crane - 0797
Governor Strong

Green

Paris

Dated March 11, 1922,

Rec'd 3 P.M.

Secretary of State,

Washington.

109, March 11, 5 p.m.

B-648. Payments mentioned our B-644 confirmed. March 8th Commission paid National Bank Belgium account priority 1,996,598.35 Belgian francs approximately 718,000 gold marks proceeds sale German coke Luxemburg December. Boyden.

HERRICK.

HCC

JAMES A. LOGAN JR.

ACKNOWLEDGED

MAR 28 1922

B. S.

Paris, March 17, 1922.

Personal and Confidential.

My dear Ben:

I enclose herewith a copy of the French text of the Financial Arrangement of March 11, 1922 signed by the Finance Ministers of Belgium, France, Great Britain and Italy.

Faithfully yours,

James A. Logan

*The document has not as yet been translated
J.A.L.*

The Honorable Benjamin Strong,
Governor, Federal Reserve Bank
of New York,
New York, U. S. A.

JAL/A
Enc.

ACKNOWLEDGED

MAR 28 1922

B. S.

JAMES A. LOGAN JR.

Paris, March 17, 1922.

Personal and Confidential.

Subject: Reparation Situation and Proposed Organisation of Committee of Financiers to advise on the possibilities and ways and means of Germany floating a large external loan.

My dear Ben:

In my letter of March 10th and previous letters, I referred to the difficulties of the continued payment by Germany of 31,000,000 gold marks each ten days, as provisionally fixed by the Reparation Commission after the failure of the Cannes Conference. All Allied Governments have now left the entire question of postponing reparation payments during the year 1922 to the Reparation Commission, as contemplated by paragraph 12 (b) of Annex II of Part VIII Versailles Treaty.

Dubois, the Frenchman, while still opposing any reduction from "31,000,000 every ten days" is weakening and I believe will bow to the inevitable, which today is the Cannes schedule (see Par. 6, Exhibit C, my letter of February 17th). The majority on the Commission are prepared to officially adopt the Cannes schedule. Seydoux tells me both Poincare and De Lasteyrie hold Dubois' position untenable and that in their opinion the Commission is wise, in view of the present trend in German exchange, to revert immediately to the Cannes schedule. However, these political gentlemen having "tagged" Dubois with the responsibility vis-a-vis French public opinion are not indulging in any public utterances of these personal views as conveyed confidentially to me by Seydoux.

At a recent unofficial Commission meeting, Dubois was forced to agree to an official consideration of the question next Friday, March 17th, and at the same time (March 15th) an "official" statement was given to the Press to the effect that "The Reparation Commission was earnestly engaged in considering the German position, particularly with regard to reparation cash payments; that the Commission intended having an official meeting next Friday, when it was hoped that some definite conclusion would be reached" This announcement was made in an endeavor to support the falling mark. Today Dubois has been granted up until Monday, March 20th, for "additional study". I believe the Cannes schedule will be adopted Monday or Tuesday next. Dubois may vote against it and may even resign (however, he may dis-appoint me in this particular), but the majority will carry it.

At the unofficial meeting, March 15th, the British Delegate, Sir John Bradbury, submitted the enclosed draft resolutions and letter, which he proposes officially submitting to the Commission Friday, viz:

- Exhibit 1 - Draft resolution of Reparation Commission reducing Germany's total cash payments on account of reparations from January 1, 1922 to December 31, 1922, from approximately 1,612,000,000 gold marks (i.e. 31,000,000 every ten days) under the "provisional schedule" now in force, to a total cash payment during the same period by Germany (i.e. including payments effected from January 1st to date), of 720,000,000 gold marks on account of reparations (i.e., the Cannes schedule).
- " 2 - A draft letter from the Reparation Commission to Dr. Wirth, Chancellor of the Reich, notifying the German Government of the decision in (1) above and laying down certain principles of budget reform, increases in taxation, control of the issue of paper money through the Reichsbank, internal loans, etc., with a threat that if these principles are not made effective before 31st May 1922 German payments revert automatically to those of the formal Schedule of Payments of May 5th, 1921. (The "separate communication" referred to in the last paragraph of this draft letter has not been formulated, being dependent on the adoption of the draft resolution in exhibit (3) below).
- " 3 - Draft resolution contemplating the appointment of a Committee of Experts to consider the question of the possibilities, ways and means, etc., for the German Government floating a large external loan.

Attention is particularly invited to the fact that the enclosed exhibits are only in provisional draft form of proposals; that they have not as yet been considered by the Commission and to date only represent the views of the British Delegate.

Loose in file

My personal view, (Exhibit 1), so far as even the reduction of the German cash payments on account of reparations from the present provisional figures to the Cannes figures is concerned, has been covered in previous letters. Concisely, this view is that the Cannes schedule without an external loan will break down some time in August 1922. However, the adoption of the draft resolution, or something approaching it, will have the beneficial immediate effect of steadying German exchange and thus giving a breathing space during which more conservative factors can make themselves felt.

Loose in file

The draft letter, (Exhibit 2) is, in my opinion, generally sound, subject to the specific reservations raised in the preceding paragraph and also subject to certain questions of detail.

The draft resolution Exhibit 3, contemplating the appointment of a Committee of Experts (Financiers) to consider the possibilities of Germany raising a foreign loan "to be applied to the redemption of a part of the capital of the Reparation debt" is, in my view, the most important step ever contemplated by the Reparation Commission and, if adopted, would create an agency the results of whose work might have far reaching effect in the settlement of the whole reparation problem. I personally do not know what the situation is at home and whether or not our Government could appoint a representative banker, or group of bankers, to this Committee as "American Financial Delegates". It is obvious that the French, Italians and Belgians are feeling the "tactful pressure" now being applied to them both directly and indirectly through our financial houses in America in the latter's treatment of foreign Government tenders for loans. The saner element, both in the Governments and outside, are well aware that the German Government has no foreign exchange available to turn over to them on account of reparations and that the only hope is to interest foreign bankers to advance money to Germany for the purpose. They also reluctantly realize that when the question comes up of Germany borrowing foreign money, the conditions and amount of such loan will not be dictated by the politician but by the fellow who is going to lend the money. If this resolution goes through and if our internal political situation and Government policy would permit, and if American bankers were interested, the time is ripe for a good constructive stroke at the Reparation question. Obviously, no sound banker would advance a cent to Germany to be paid over to the Allies unless his loan be protected by the German reparation bill and other treaty charges being reduced to a figure that "Germany can and will pay". There is an unlimited field of real constructive activity for such a Committee. If all agree to a sane treatment of Germany, a substantial business loan, properly secured, might have an excellent effect by immediately providing money urgently needed for reconstruction of devastated areas, while at the same time putting the damper on a lot of political nonsense. On the other hand, if a business arrangement be impossible, the reasons for failure would become public and would go far in the education of public opinion by forcing it to realize the inevitable. The scheme has the additional feature that it can be worked on our part through private bankers, with perhaps representatives of the Federal Reserve Bank, without the direct interjection of our Government into any political phase of the question.

The question concerning the possible appointment of a Committee of Experts (Exhibit 3) has not the same pressing importance as the readjustment of German cash payments (Exhibits 1 and 2) and therefore I have every reason to believe that no definite action will be taken on this phase for two or three weeks. If you are interested in this matter, it is important not to confuse the possible creation of a Committee of Experts (Financiers) to consider the external loan possibilities with another Committee of Experts (exchange men) which has already been created by the Reparation Commission and is now in process of organization. This latter Committee, its functions, etc., are limited, as already explained in previous communications, to giving advice as to the method of handling German cash payments so as to least disturb exchange - a very restricted field of work. The other Powers have nominated Exchange Experts for this purpose, (see attached list of names), but it is not yet decided whether or not we are to add someone from home. It goes

without saying that a man, or men, of much greater repute and influence would be needed as "Financial Delegates" for the proposed Financial Committee than is needed for the Exchange Committee now in being.

The proposed organization of the Finance Committee (Exhibit 3) smacks somewhat of the old desire of our British friends to entice us into a position in which we may not want to be placed. I accept only with reluctance Bradbury's statement to me that the plan covered in this exhibit emanated quite suddenly and recently from his own brain. Past experience forces me to believe that this child was born in London rather than Paris, that there is some question as to parenthood, and that the child is older than Bradbury admits. Your judgment on this phase is, however, much sounder than mine. Notwithstanding the foregoing slight reserve, I am nevertheless still forced to regard the project as one having great interest and considerable possibilities.

While referring to the "tactful pressure" said to be being exercised on foreign Governments' tenders for loans in America, I necessarily speak without knowledge as to whether or not such a policy has been adopted. I do not mind frankly stating that I think such a policy to-day, if intelligently applied, is one which will go far to bringing our European friends out of the clouds in which they now rest down to solid ground, where common financial horse sense in handling and disposing of the Reparation question is so urgently required.

Loose in file

I enclose herewith certain papers which may interest you.

Faithfully yours,

Jan. G. Bryan Jr

The Honorable Benjamin Strong,
Governor, Federal Reserve Bank
of New York,
New York, U.S.A.

JAL/A
Encs.

*P.S. I have written in
practically the same
sense to two other funds
so be careful what you
say. for*

List of Exchange Experts
nominated by Allied Governments as members of the
advisory Committee of Exchange Experts organised by the
Reparation Commission.

(See end of page 3, this letter).

- Belgium - Omer Lepreux, Vice-Governor of the
National Bank of Belgium.
- Italy - Joe Nathan, Financier, business man,
etc. etc.
- Japan - Sadahiko Nakane, Superintendent of
the London Agency of the Bank of
Japan, 7 Bishop's Gate, London, E.C.2
- Great Britain - Sir Charles Addis, Banking Expert
of distinction.
- France - M. Picard, Sous-Gouverneur de la
Banque de France.

List of Enclosures with letter of J.A.L., Jr. to Governor
Strong of Federal Reserve Bank.

Letter dated March 17, 1922.

- Exhibit 1.)
- " 2) Described in letter.
- " 3)

Reparation Commission:

A. Germany:

Document, Berlin	505
" "	516
" "	517
" "	522
" "	524

Document, Paris	520
" "	525

Annex Nos. 538/13 bis.

" "	1247
" "	1284
" "	1292
" "	1303
" "	1307

B. Austria and Hungary.

I. S. No.	583
" "	584
" "	585
" "	586
" "	592
" "	593

TELEGRAM RECEIVED FROM PARIS AT STATE DEPARTMENT

C 797

Dated March 18, 1922.

No. 126, March 18, noon.

B-657. German Government announced March 16th payment by Reichsbank 5,000,000 Belgian francs; 1,100,000 pounds sterling; 10,000,000 French francs; and by Devisenbeschaffungstelle 16,000,000 Belgian francs; total approximately 31,000,000 gold marks. These not yet confirmed. Will go to France instead of Belgium. See our B-654.

BOYDEN

MAIL



2797
RECEIVED
MAR 28 1922
B S.
ASSISTANT SECRETARY OF THE TREASURY
WASHINGTON

March 23, 1922.

Dear Ben:

Perhaps you read French. If not, no doubt some one up there does. Here is a letter from a Belgian which was sent to me by de Cartier. The man who wrote the letter is very high in Belgian financial circles. I will tell you his name when we meet. It is rather an interesting comment on the situation. Look it over or have some one translate it to you and let me know if you agree.

Always yours,

W.

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

Enclosure.

I hope you had a fine trip. Please return enclosure when through with it.

Brussels, February 11, 1922

My dear friend,

During a trip which I have just taken in the Succession States of the former Austria-Hungarian Empire, I was able, in the course of various conversations with public men of these countries, to get an idea of the plan which these states had decided upon for their economic restoration. This plan, for all these countries, is copied from the one which Austria has established in agreement with Germany.

The numerous indications which I saw right and left show very clearly that the plan in question has been studied and developed to the last detail since the armistice.

The indispensable basis for the realization of this plan is the arrival at an understanding with the Allies on the subject of the reparations, resulting in the fixing of the total at such-and-such a compensatory figure; that is to say, that it is indispensable for Germany that she be told, once and for all, what is the maximum amount that she will be required to pay in gold. To arrive at this compensatory agreement is the object towards which all her efforts have for two years been tending, for as long as this fundamental decision is not reached, it will be difficult for her to proceed without unexpected results, towards the realization of the plan which she has conceived. This consists, in fact, of devaluating her money as soon as the principle of compensation has been accepted, and a figure has been specified.

At this point, she will try to assemble a sufficient reserve of foreign securities or of gold - either by succeeding in raising a loan, or by making her manufacturers, who all possess abroad immense reserves of foreign securities, furnish her the sums which she will need. This gold

capital will constitute the cash balance of a new State institution which will then be created and which will receive the privilege of issuing new bank notes which will be called gold marks.

In order to give all desirable guarantees to the accepters of these new bills, Germany will, if necessary, leave on deposit in a great foreign bank, either in the United States or in England, the total amount of the securities or gold which she will have been able to collect, while, at the same time, stipulating in the conditions of the new banking institution that the latter is forbidden to issue notes for an amount greater than the value of its metallic reserve.

As for the old Reichsbank notes, she will leave them in circulation, endeavoring to depreciate them as much as possible, particularly by the abundant issue of new notes. Germany will, besides, declare that all her internal debts (and here, it is well to recall that she has no external debt) are debts created in paper-marks, and that, consequently, she is held to the payment of the interest and the amortization of these debts only by means of the note-mark in circulation today. Moreover, as this note mark, thanks to the policy followed by Germany, is and will remain depreciated, the country will be subjected to no more than a ridiculously trifling financial burden in gold.

Here, I can see the proof that the depreciation of the German exchange is due to nothing but the actions of the government of the Reich, actions which arise from the program established in agreement with her wealthy manufacturers. To be convinced of this, it is enough to see what has been going on in Germany since the armistice, especially as concerns the railroads, telegraph, coal, bread, - in short, in all the domains where government activity is exercised. Thus it is that the transportation rates by rail are, in gold, less expensive than those before the war; it is the same for the telegraph and the post. As for bread, the monopoly of the sale and distribution of

of which the government has maintained, it continues the monopoly now at prices inferior to the cost price, instead of demanding of the manufacturers - who acknowledge considerable profits - the increase of the workers' wages. The case of coal is still more typical. We see, in fact, the Boche government effect a regular "dumping" here, granting all industries, even the most prosperous, enormous concessions, either in the form of special transportation rates, or even in money. It is a fact that we have been able to obtain from certain Boche factories the official invoices and the secret invoices remitted to the manufacturers for the coal which was delivered to them, and the price of which, at the close of the account, appears at 310 marks a ton, delivered at the factory, or less than \$1.50, when in Belgium, the cost price of coal, at the pit, is more than \$4.50.

All these favors granted to the manufacturers represent the price paid for their complicity in the execution of the plan adopted; their role is to establish, thanks to the favors accorded them, the large reserves of foreign securities which they own today outside of the German frontiers. In a word, all this is still part of this famous plan which has as its aim, in reality, to bring Germany to internal bankruptcy, without one's being able to say, however, that she is stopping the payment of her debts, since she will continue to pay them in paper marks. This what I shall call scientific bankruptcy.

In order the better^{to}/judge the results which Germany intends to derive from it, let us take a concrete example.

The Government of the Reich owes at the present time to her nationals (and also to the foreigners who have rushed after German stocks which Boche propaganda made them expect would rise rapidly) a total of from three to four hundred billion marks. In gold, this represents scarcely one billion or one billion and a half dollars, say, 20 dollars per capita at the

maximum.

When once the new banking institution is established, the Boche government, by a skilful policy and in accordance with the legal arrangements which will be made, will after some time, succeed in effecting the stamping of the securities in circulation, for the payment of the interest in gold, according to the exchange at the time of stamping. The thing will be done the more easily as the holders of interest-bearing securities will prefer to have fewer coupons to detach and to no longer have to collect so great a number of notes, depreciated notes whose purchasing power will not be greater than that of the gold notes of the new banking institution which will be offered them when once the stamping is effected.

Under these conditions, when in a few years all the securities will have been stamped, Germany's debt will be composed of (1) the compensatory amount agreed upon with the Allies, let us say, arbitrarily, 100 billion gold francs, or 20 billion dollars, plus (2) a billion or a billion and a half dollars representing the conversion into gold of her internal debt; in all, then, twenty-one or twenty-two billion dollars, which makes 350 dollars per capita.

From this time on, it will be sufficient, for the meeting of the needs of the Reich, to tax the income 10 or 15% at the very most. If, with the purpose of putting her inhabitants in the same situation as those of the rest of the world, from the point of view of financial burdens, the Reich goes so far as to tax them to the extent of 50 to 60% of their income, as America does, for example, it will be only in order to devote the excess receipts to the needs of the budget, to public works within the Reich, or perhaps to investments in industrial concerns abroad.

This amounts to saying, in conclusion, that Germany, even while maintaining herself on the level of the other nations from the point of view of financial burdens, will be able to work efficaciously for the future, and

to prepare for her future generations an absolutely privileged situation in the world whose economic conquest will be an accomplished fact.

This plan is also the one which Austria has adopted, and , following her example, all the Succession States of the Austro-Hungarian monarchy.

See how striking is the comparison which can be made between Austria's situation and that of our country, Belgium. Each has a population of about eight millions. Austria has, or will have at the moment when she hopes to be able to realize the Boche plan, a debt of about 300 billion crowns, which represent today 150 million gold francs. This debt constitutes a burden of 20 gold francs per capita, while in our case, even if we should apply an arrangement of the Austrian plan, we could never devaluate our money except upon the basis of its present rate of exchange, which is still from 30 to 40% of its gold value; that is to say, our 40 to 50 billions gold paper debt would still represent ten to fifteen billions in gold, say, 1500 gold francs per capita.

I told you at the beginning of this letter that this plan has been prepared since the armistice; I have had the proof of it in the course of numerous conversations.

As soon as her plan of restoration was well studied out and definitely agreed upon, that is to say, from the beginning of 1919, Germany began, through her agents and the mediation of her friends abroad, an ~~un~~-restrained propaganda in all the countries of the world, in Asia, South America, the United States, everywhere, in short, in order to spread the idea of the rapid economic reestablishment of Germany and consequently of the rise of her exchange - at that time, the mark was worth 40 to 50 centimes. At the same time, through the intervention of the German banks, she enlisted all her great manufacturers, all her business men, in a word, all her accomplices, in selling

marks in order to raise the large reserves in foreign securities which the Germans now possess abroad. Thus one sees today Germans owning in Holland assets of from five to six million florins; in Belgium, several hundred^{million}/francs; in Argentina, hundreds and hundreds of millions of pesos; in the United States, I do not know how many dollars. . . .

How much does this total of foreign securities in the hands of the Germans amount to today? No one can say, but nevertheless, it is to be borne in mind that in the course of the discussions of the Supreme Council, allusion was made to the figure of a billion dollars, without raising any protest from the German delegates.

Now that the mark has fallen to less than a farthing, and will be kept at this rate of exchange, if indeed they do not try to make it go lower still, how much would Germany need to buy back all the marks that she has sold in the entire world! Scarcely a few tens of millions of dollars, leaving her thus a considerable profit on the speculation which she has carried on thanks to the propaganda conducted by her government. And it is precisely this profit which is going to serve her, later, in establishing the gold reserve of the banking institution~~which~~ she intends to create.

From all that precedes, it follows very clearly that if we do not pay attention, and if we do not find a way to parry the blow with which the Boches are threatening humanity, we are going to find ourselves, in a few years, Americans and English as well, and especially the countries with a favorable exchange today, in a frightful situation.

In my humble opinion, one remedy exists: To declare to Germany, clearly and precisely, that the total amount of the indemnity which she owes, by virtue of the Treaty of Versailles, will be exacted to the last centime, even if the payments have to be distributed over a century, at the risk of having fixed each year the amount of the sum to be paid the following year, in proportion to the capacity of the country.

To act otherwise, that is, to satisfy the desire of the Boche government in indicating a compensatory figure, is to impose upon our children a situation from which they will be unable to extricate themselves except by another war.

How, moreover, could so many people be deceived by the illusion that the Germans, who have always taken a long-sighted view of the future, would have accepted the situation in which the war has placed them, such a situation as the Treaty of Versailles imposes upon them, if they had not already traced for the future a plan for an economic campaign, a plan drawn up by men gifted with that mentality which even before the war they were known to possess, that is to say, a spirit of conquest and of economic and political domination?

Today, my dear friend, you see all Germany turning towards Rathenau! But it is solely because before 1914 he was one of the most ardent promoters of world economic conquest. At that time, in order to realize the projects of the Empire, he made use of the powerful instrument which he had at his disposal and which was called the "A. E. G." from the name of a combination of electrical trusts which he had created, and the action of which is felt not only in Germany, but in France, America, Italy, Belgium, and everywhere else.

Rathenau, let it be said, is one of the keenest blades in Germany, he has the qualities of his race, the gift of flattery, of lulling distrust. He has made use of these gifts in the past and will use them again in the future, but when he believes he has attained his ends, he will raise his head to rule those whom he has conquered.

We Belgians have had the proof of this during the war. Rathenau, as a matter of fact, came here formerly to secure the control of many electrical concerns; he entered into relations with a number of our business men whom he flattered and cajoled. When the war came, there was not a man who did so

much harm to the Belgians and French of the occupied regions as this soft-spoken Rathenau. It was he who was the author of the requisitions of machines and industrial material; it was he again who conceived the destruction of factories.

It is understood that what I am writing you is said merely in a quite personal capacity, and that I do not wish my name to be published, nevertheless there is no harm in your quoting me in your conversation with your friends over there.

Very sincerely yours,

Translated by
K. D. Frankenstein,
Statistics Dept.
March 24, 1922.

GMH/

ACKNOWLEDGED

APR 11 1922

R. S.

JAMES A. LOGAN JR.

Paris, 18 rue de Tilsitt.
24 March, 1922.

PERSONAL & CONFIDENTIAL

Subject: Reparation situation and Proposed
Organization of Committee of Financiers to
advise on the possibilities and ways and
means of Germany floating a large external
loan.

My dear Ben,

With my letter of March 17th I enclosed a draft decision as Exhibit 1 and a draft letter as Exhibit 2 which had been formulated by the British Delegate and submitted for the action of the Reparation Commission. These Exhibits proposed an immediate and substantial reduction of the demands on Germany for reparation payments during the year 1922 and the conditions under which such partial moratorium would be granted.

I enclose herewith as:

Exhibit A - the formal decision of the Reparation Commission taken on March 21st 1922,

and as:

Exhibit B - the formal letter of the Reparation Commission which has been sent to the German Government under date of March 21st 1922.

The enclosed draft decision and letter were approved in the Commission by unanimity. It was obvious during the last few conferences preceding the formal adoption of the decision and letter that Poincaré and de Lasteyrie had forced Dubois to back down from the position he had previously taken. This action of the French Government is in my opinion most encouraging.

However, I remain of the opinion that the figures of cash payments (Exhibit A) are beyond Germany's capacity; that Germany can only meet such payments up until August 15th at the maximum and at that time, though preferably before, they must be revised.

With regard to the letter (Exhibit B), this is of course an "ideal" arrangement but imposes conditions which in my view can never be carried out. The reform of German finance is essential for reparations, but there is no way of permanently reforming German finance or of obtaining the maximum possible indemnity which does not begin by reducing the total to a figure within Germany's capacity. In other words I am convinced that the increase in taxation necessary not only in raising cover for the existing German budgetary deficit, but also the additional cover required to meet reparation payments set forth in the decision is outside Germany's

Loose in file

capacity. I personally doubt if the Wirth Government will weather the storm and therefore look with considerable apprehension to the resulting political, financial and business disturbances which are bound to follow. If the Wirth Government which is conciliatory falls, the danger is of its being succeeded by a reactionary Government with the result that more fuel will be added to the flames. If by chance Germany could develop a new Government willing and strong enough to exact the measures contemplated by the Commission's letter, I should nevertheless anticipate very complete business disturbances during the period of adjustment to the new conditions, also the final failure of the measures adopted to produce any close approximation to the results desired. It is obvious that so long as this letter remains in full force there is no possibility of Germany securing external short term credits even for ^{Wirth}slamm amounts which to tide over the situation in which it is now placed. Fortunately the letter is carefully worded and while giving satisfaction to the lessening extreme anti-German public feeling in Allied countries, nevertheless leaves loop-holes through which very considerable amendments are possible at any time. The advantage however of the latter is that it is likely to bring matters to a head without delay.

The fight in the Commission the last few days before the enclosed decision and letter were approved, and after Dubois had agreed to the reduced payments, centered on the nature and extent of control to be exercised by the Reparation Commission over German administration. The French Government through Dubois was for a control somewhat approaching that of the "The Ottoman Debt", or "The Chinese Customs Administration", whereas the other Delegates were opposed to any such method of mixing up or assuming direct responsibility in any way whatsoever in German administration.

The French proposed the organization of a "Committee of Guarantees" with headquarters in Berlin, nominally under the Reparation Commission but "with authority to report direct to the Allied Governments". The obvious purpose of this arrangement was to set up a new body for handling reparation questions with a new constitution from which latter the few redeeming parts of the Versailles Treaty concerning "considerations of Germany's capacity", "German internal taxation not to exceed that of the highest enforced in any Allied countries" etc., could be eliminated. In other words the whole proposal was "political eyewash" designed to cater to public opinion. The other Delegates counter-attacked by maintaining that this proposal contravened the words and intent of the Treaty; that they would not recommend the setting up of any such veiled form of independent "Committee of Guarantees" in Berlin and that as future developments in the German situation might require the presence of the Reparation Commission permanently in Berlin they proposed that the Allied Governments be asked at once to give their consent to the transfer of the Reparation

Commission's permanent headquarters from Paris to Berlin "if and when the German situation requires additional direct control of German administration". The French immediately withdrew their proposal and the whole matter was dropped. I do not want to give an exaggerated impression of the importance of the foregoing French Government's proposal as it was not forced in any way and as Dubois himself was obviously against it. I am inclined to believe that it was a sort of political ballon d'essai of de Lasteyrie.

The British proposal for the appointment by the Commission of a Committee of Financiers to consider the possibilities, ways and means of Germany floating an external loan (see my letter March 17th and Exhibit 3 therewith), has not as yet come up for the formal consideration of the Commission. I still hold the views expressed in my previous letters as to the importance and the possibility of this Committee's operations being the opening wedge for a business settlement of the entire reparation question. Admittedly the proposal has certain phases which are "loaded" and a good target for public outcry ("Interference of Money Interests", "London Financiers", "Wall Street Dictation" etc..) as any business settlement would have to "prick the balloon" of public opinion in certain Allied countries. On the other hand I believe that the far sighted Allied politician now realizes that his Government for its very existence needs hard cash; that the total of the reparation bill and practically any schedule of cash payments which can be evolved in the present situation are ridiculous and that he is therefore about ready to lend his influence to solving the present dilemma on sound business lines involving heavy concessions in exchange for others granting a loan to Germany with what to pay him. If money could be made forthcoming on business lines from the joint loans of financial groups of all Allied and neutral countries and America, the devastated Allied areas could be restored and thus reasonable and equitable reparation claims once and for all satisfied.

I also enclose the following documents as being of possible interest to you, viz:

Document Paris 530 - The Commonwealth Draft Law Concerning The Reform of The Constitution of The Reichsbank.

Document Berlin 546 - Financial Position of The Reich.

Document Berlin 547 - Weekly Statement of the Reichsbank.

I.S. 601 - Weekly Balance Sheet of The Austro-Hungarian Bank.

I.S. 608 - Weekly Bank Statement of The Hungarian Bank.

Faithfully yours,

JAL/BD
7 incls.

Jan. C. Lynch

The Honorable Benjamin Strong,
Governor, Federal Reserve Bank

P.S. - In connection with the control

question referred to in page 2 of the foregoing letter. The original ideas so far as a control of the Reichsbank was concerned and which was at first fathered by Bradbury contemplated insisting that in addition to the Reichsbank's complete separation from the Reich, a neutral adviser was to be added to its staff to have a general supervisory action on its operations. The French were quite insistent that Bradbury's ideas be put into effect and that provision for the neutral adviser be incorporated in the letter to the German Government. Bradbury then said in explanation of his change of view that he had been talking quite recently with Le Normand (your friend of the Bank of England) and that the latter's arguments against the appointment of a neutral adviser had changed his opinion. Bradbury went on to say that Le Normand is personally taking a great deal of interest in the Reichsbank and "as a matter of fact considered it one of his children and was giving its operations his closest personal attention". He then said that all of the great Governments' banks, referring not only to the Bank of England but also to the Federal Reserve Board, would not regard with indifference any endeavor of the Allied Governments to mix up in the internal affairs of the Reichsbank by the proposed appointment of a neutral financial adviser, but that they were entirely in accord with the Reparation Commission in insisting upon the autonomy of the Reichsbank from Reich's control.

9652

March 28, 1922.

My dear Logie:

I am much indebted to you for your letters of March 3, 10 and 17 (2), which are most illuminating. I hope you can continue to send me the Reichsbank statements, and in that connection, what is your personal view in regard to the various estimates ^{are} which ~~A~~ made of the amount of so-called exported German capital? I recently saw an estimate of 90 billion marks. Assuming that this figure is correct, which I would greatly doubt, at an average value of the mark of one cent, it would represent \$900 millions. I do not believe that one-half of that figure is justified, but admit that I am guessing largely, although we must remember that the German Government seems to have disposed of 25 or 30 billion marks in one way or another in acquiring the foreign currencies with which to make reparation payments, and to the extent that these have been made in foreign currencies, the amount of the foreign hoard has correspondingly been depleted.

Another point on which I would like to have your opinion is as to the efficacy of the plan just adopted to restore autonomy to the Reichsbank. What are the terms of the bill? What does autonomy mean? And how effective will the proposal be?

Another point is as to the reports now in hand that the internal debt of the Imperial Government has been extinguished. How was it done, if it was done? I would like very much to know some more about that.

As to your letter of March 10, the Cannes project now having been adopted, it remains to be seen what will be the resulting effect upon the mark, provided Germany assents to the demands embodied in the last communication of the Reparations Commission. My guess is that the only thing that can save the mark will be a thorough-going adoption of the demands of the Commission by the German Government;

and is that socially and politically possible? I very much doubt it, as you seem to,

March 28, 1922.

as discussed in your letter of March 17, and which is indeed a most interesting resume of the situation. I have read it with keen interest.

A surmise as to the German condition has been growing in my mind in recent months, and I am wondering to what extent your views might confirm it. It seems to me that the German profiteer, that is to say, the business man of the Stinnes type, has sought to take advantage of the depreciation in the currency to scoop up all the fixed property that can be bought, that it is probable that these purchases are made with a cautious avoidance of fixed interest bearing obligations of definite maturity, and that when the complete collapse of the German mark takes place, these gentlemen will be found in possession of vast properties which will in turn produce to them vast profits if they are able to retain them upon the basis of some restoration of the value of the German mark, even as a consequence of devaluation or repudiation. A good line would be had upon this subject if one could ascertain just how these gentlemen have conducted their operations, and whether they have been undertaken by a scrupulous avoidance of the issue of fixed interest bearing obligations. This would be the key to their policy. Should my surmise be correct, then it will be seen that the German Government, in order to meet reparation payments, and at the same time protect the value of the mark, must impose taxes which would take away from these gentlemen the enormous paper profits which they have realized, or expect to realize. Therefore, if the German Government is dependent upon the support of the large business interests, will they not resist a sound financial program, and will not their demands to defeat it result in the downfall of the present government?

I am much interested in what you write about the contemplated appointment of a committee of experts to consider the possibilities of foreign loans to Germany. At the first opportunity when I am in Washington possibly I may be able to ascertain a little bit of what might be expected. I would greatly doubt any affirmative position being possible by our government, but, on the other hand, they might be unwilling to interfere in case our bankers undertook to associate themselves

March 28, 1922.

with the movement. At the present time there is, as you know, an element in the government, in Congress, and a considerable public opinion, which opposes American loans to Germany for the purpose of enabling Germany to pay reparations upon a scale which has heretofore been regarded as beyond Germany's capacity to pay. Your underlined comments on page three indicate that you do not consider that there is any vast fund of foreign exchange which Germany could acquire, and which I have indicated above is my own opinion.

As to the whole subject of American participation in a German foreign loan, might it not be reasonable to expect this question to receive more intelligent consideration after our Funding Commission has had time to inform itself more fully as to the conditions surrounding the repaying of the debts of the Allied Governments to our government.

I am a little uncertain as to the meaning of the last paragraph of your letter regarding "tactful pressure." Possibly it is the suggestion now and then emanating from Washington, that loans to certain foreign governments should not be offered in our market until those governments display willingness to reform their budgets. Of course, there has been discussion of that from time to time, Mr. Hoover I believe being rather of that opinion. I am very uncertain of the wisdom of the proposal, however, because it appears to be so inconsistent with our attitude of "hands off" in all European political and internal affairs. Besides that, any foreign loan that we now make is directly or indirectly a contribution to European recovery and to a better situation in the exchange market.

In conclusion, I think the time is not yet favorable to make any attempt to float a German loan in this country, even though well secured, which has for its specific object the facilitation of reparation payments. The time to do that will be later, after some other pressing questions are out of the way. As I stated to you when you were here, the sequence of events in this country should be (1) the ratification of the Treaties; (2) the functioning of the Funding Commission; (3) negotiations by the Funding Commission with the foreign governments; (4) and

March 28, 1922.

Possibly not until after the election, the development of some sort of constructive program, if that is politically possible. To attempt to hasten matters much beyond this will be very difficult just now, although I gather that it is the desire of the Administration that we should be officially represented on the Reparations Commission, in the interest of our own country's affairs, and that the President, so I have been told, has not hesitated to state this.

Thank you also for the French text of the financial arrangement covered by yours of March 17, which I shall have translated here.

My best regards to you, and apologies for such an unsatisfactory reply to your fine letters. Please remember me to Boyden. Also bear in mind that I have not been in Washington recently and have had no opportunity to talk with the people over there.

Yours sincerely,

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

BS.MM

0797

March 28, 1922.

X.B.2.70

Dear Waddy:

I have received, and with this am returning, the document handed you by your Belgian friend, and take the liberty of making the comments which you ask for.

First, it strikes me as having behind it a certain amount of animus, and being written in a skeptical vein, which is liable in so many cases to result in the conjuring up of ghosts, and in general does not impress me at all favorably.

Let me refer to a few particular points:

1. I doubt if the German Government has undertaken as a national policy the devaluating of the German mark. This idea, or plan, being adopted as a principle of national finance as expressed in the document you sent me strikes me as a conspiracy between the government and large German manufacturers. Devaluation to be undertaken as hinted involves such a reconstruction of values, of wages, of taxes, of the whole internal economy of the nation, that, if undertaken at one stroke, as suggested, it would likely bring about a social upheaval. The relation between debtor and creditor, between employer and employe, between landlord and tenant, would be so disturbed, and so much distress would result that I cannot believe that any such scheme in the nature of a national conspiracy could have been undertaken. As I understand the situation in Germany, there are two points of view in regard to reparation payments held by two classes of people. One class, largely comprising the present government, is disposed to make an effort to meet the reparation demands down to the point of exhaustion. This does involve a constantly depreciating currency, and I have no doubt that there has been a lack of intelligent and energetic effort to reform government finance so as to protect the mark against decline, but I seriously doubt whether this contemplates the policy eventuating, as indicated in the paper. Another party, I have been

told, believes that it is a mistake for Germany to continue to undertake to make payments upon a scale and at a rate beyond her capacity, and that they would prefer to go to the extreme of having Germany subjected to military occupation rather than see the economic situation reach complete exhaustion. They hold the view, I am informed, that the military occupation of Germany and the administration of its affairs by the Allied Governments would prove a calamity to those who attempted it, and it would be better to have that experience and get it over with than to see Germany economically destroyed by an impossible program of reparation payments.

2. The plan to constitute a new state institution of issue is quite contrary to recent developments, all of which indicate the intention of the German Government to restore a reasonable degree of autonomy to the Reichsbank, which was lost when the Imperial Government disappeared. Besides that, a proposal to render the paper mark of the Reichsbank valueless and then establish a new currency, while it might relieve the German Government of the payment of its internal debt, it would, on the other hand, encounter difficulties with the Reparations Commission of a character that would be insurmountable. In point of fact I believe that the old internal debt of the Imperial Government, contracted during the war and prior thereto, has been substantially extinguished already, with the exception of the debt of about 135 or 140 billion marks to the Reichsbank, and we all know that Germany's external debt has been almost negligible in amount since the repayments were effected to Holland, Scandinavia and Switzerland sometime ago. I have no figures to support this general understanding, but believe it will be found to be substantially accurate.

3. Recent advices indicate that plans have already been perfected, and in some instances put into effect, for abandoning the government's monopoly of the purchase and distribution of certain essentials.

4. The plan which can almost be described as a conspiracy, outlined in the document, seems to be predicated upon the belief that German citizens have vast resources accumulated abroad in foreign currencies. The amount of these resources I am confident will be found to be greatly exaggerated. The highest estimate I have

recently seen is 90 billion paper marks, that is to say, an amount much exceeding

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one-half of the total note circulation of the Reichsbank. This figure strikes me as unreasonable, especially in view of the fact that some 23 billion marks, as I recall were employed by the German Government in one way or another in accumulating the funds with which to make the first year's payments of one billion gold marks on reparations account.

In general, my impression of the memorandum is that ^{its basis} ~~it~~ has no foundation, ^{what would be} In fact, it is simply an indication of ^{the} stupidity of the German Government in attempting a vast scheme of national bankruptcy and repudiation upon a basis which would be quite likely to bring about a political and social upheaval and defeat the very object which it seeks to accomplish. The chances are that complete knowledge of the facts would indicate that the German Government has, on the one hand, been attempting to resist reparation payments by every means in her power, and, on the other hand, to the extent that reparation payments have been forced the government has, with a certain wilful negligence, undertaken means to meet these payments, which have resulted in a depreciation of the currency, which they have viewed with a certain complacency, for reasons which are not touched upon at all in this memorandum. One can only surmise what those reasons are, but my own surmise is that certain ambitious and selfish people in Germany have grasped the opportunity to buy up property and manufacturing plants and all sorts of fixed assets with this depreciated currency, paying for them in such manner that they do not incur fixed interest bearing obligations of fixed maturity, and with the expectation that when the collapse comes, and the ultimate restoration to a sounder currency basis is effected, they will be left with these properties, measured in value of an appreciated mark, and will have vastly profited by the general disaster to the German people. Under such conditions as these if the German Government relies for its support upon the so-called business interests of the country, it is relying for support upon the very people who would resist any program of sound finance which would, of course, involve taxing the paper fortunes which they are now making, practically out of existence.

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In conclusion, therefore, I would accept the statement in this memorandum with a good deal of reservation.

Yours sincerely,

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

BS.MM

enc.

ACKNOWLEDGED
APR 17 1922
B. S.

JAMES A. LOGAN JR.

Paris, 18 rue de Tilsitt.
31 March, 1922

PERSONAL & CONFIDENTIAL

SUBJECT: Reparation situation and Proposed Organization of Committee of Financiers to advise on the possibilities and ways and means of Germany floating a large external loan.

My dear Ben,

In my last letter to you dated March 24th I enclosed the decision of the Reparation Commission dated March 21st giving the provisional schedule of reparation payments for the year 1922, together with the formal letter of the Reparation Commission of the same date to the German Government outlining the conditions under which this provisional moratorium on reparation payments was granted.

You have undoubtedly seen in the press what effect this "ideal" letter has made on Germany, so it is unnecessary to further refer to it here. We have received apparently authentic information that the Germans will make no reply to this letter until just before the Genoa Conference. This information indicates that if a reply be then made, it will be to the effect "that the Germans propose raising the entire question at the economic and financial conference at Genoa". I would not be surprised if this was not "the fine Italian hand-work" of d'Abernon in Berlin or Lloyd George, though I am not sure. It will be interesting however to see how our French and Belgian friends react if a move of this kind be attempted. I am personally inclined to feel it to be a mistake to raise this question at Genoa and hope that in view of the general understanding the attempt will not be made.

The indications at the moment of writing this letter appear to be that Lloyd George will try to manouver so as to broaden the scope of work of the Genoa Conference. This would be a splendid stroke for him in his present political position. From certain indications Lloyd George is suspected of also planning bringing up the international loan question at Genoa on the lines of the "so-called Horne plan" which has been appearing in the press for some time past. I doubt very much if Horne would claim paternity for this plan labelled with his name. From what I gather, the plan emanated from the brain of Blackett and Giannini (the Italian).

I believe that our British friends realize their special position vis à vis an early settlement of their American loan is basidly different from the position of their Allies. Leaving aside the broader economic phases of our general loan position, Great Britain if forced can and must commence paying at an early date, whereas the others cannot and consequently will not be forced to pay in the immediate future or if ever. Our British friends can therefore be suspected of

of desiring to secure some sort of an interlocking arrangement with their allies which will protect Great Britain from the necessity of paying us anything, which if we force her, she must do to protect her world credit. All the foregoing must be accepted with reserve. However the position in many of the above particulars will be largely cleared up through the press before you receive this letter.

The Bradbury proposal for the appointment by the Commission of a Committee of Financiers to consider the possibilities, ways and means of Germany floating an external loan (see Exhibit 3 with my letter of March 17th) has been presented formally to the Commission and accepted "en principe" by the latter body. The plan has purposely been allowed to leak out into the press with a view to "sounding" public opinion. I personally gather from the French press that the reaction of public opinion is more or less favorable. I don't intend to imply by this that the French public's stomach is entirely ready to digest the entire meal which must necessarily be served it by the Committee of Financiers, but the same stomach is far from feeling satisfied with the meals supplied it in the last few years by the empty utterances of Supreme Council's politicians, etc.. You will readily see from the foregoing that I am somewhat of an enthusiast on the question of a Committee of Financiers.

All of the members of the Commission, excepting Dubois who is showing only slight hesitancy, agreed to immediately propose this measure to the German Government. Dubois hesitates in view of the non-reply of the German Government to the Commission's letter of March 21st. Obviously he is torn by two conflicting emotions, first: the somewhat technical aspect of the Germans' position of non-reply to the letter, and second: the fear that if the Committee of Financiers' plan be not immediately set in motion the Germans' position at Genoa will be strengthened. Others on the Commission feel that better results would be accomplished by initiating the work of the Committee of Financiers before the Germans can make any reparation presentation at the Genoa Conference. I am now inclined to believe that this proposal will be definitely agreed to and that preliminary steps for the organization of this Committee will be effected the early part of next week.

As regards the Bradbury proposal for the organization of a Committee of Financiers (Exhibit 3 with my letter to you of March 17th), the following remarks relating to its proposed personnel may interest you. Delacroix who is proposed by Bradbury as President is an ex-Prime Minister of Belgium. While something of a "wind-bag", he is nevertheless very adroit, a man with considerable ability with a broad view, and above all an excellent compromiser. He will do more or less what Bradbury wants and at the same time will maintain the confidence of the French. All around I think it is the best selection which could be made. D'Amelio who is proposed by Bradbury as Vice-President is the Assistant Italian Delegate on the Commission. He is a quiet fellow, seldom opening his mouth and easily suppressed at any

(Summary)

time. He is an Italian Judge and a pretty good all round fellow. Bradbury's underlying reason in proposing d'Amelio as Vice-President was for the purpose of giving Italy the empty honor of being represented on the Committee in the office of Vice-President, which would ipso facto eliminate the possibility of Italy's claiming any further representation on this body. Past experience in Allied financial conferences has clearly shown that Italy, while never having anything to offer, particularly money, nevertheless usually sends some wind-bag of a politician who more often than not follows the cue and casts his vote with the French. For the foregoing reasons I consider Bradbury's proposals pretty good.

I enclose the following documents as being of possible interest to you, viz:

Document Berlin 555 - Weekly Statement of the Reichsbank.
I.S. 623 - Weekly Balance Sheet of the Austro-Hungarian Bank.

Faithfully yours,

J. A. L. Jr.

JAL/BD
2 incls.

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

P.S.- I do not want to imply by my references to the "ideal" letter referred to in the second paragraph, page 1 of this letter and in previous letters that the majority of the Commission were not fully aware of the fact that the conditions imposed were more or less ridiculous. However it is framed on strict Treaty principles and therefore in the present situation political exigencies necessitated its being forwarded to the Germans, an effort being made at the time by the more thoughtful to make it as harmless as possible. Obviously this latter phase was not arrived at with great success. On the other hand it has the decided advantage, just because it is so ridiculous and because it is based on the strict wording of the Treaty, of forcing an earlier issue of the whole reparation question. The more thoughtful, and unquestionably Bradbury, had this phase fully in mind when the letter was sent.

J. A. L. Jr.