

ACKNOWLEDGED

APR 21 1922

B. S.

JAMES A. LOGAN JR.

Paris, 18 rue de Tilsitt.
6 April, 1922.

PERSONAL & CONFIDENTIAL

My dear Ben,

My last letter to you was dated March 31st.

The following is the text of the resolution adopted by the Reparation Commission on April 4th 1922 concerning the organization of an "Expert Committee", or in other words a "Committee of Financiers" to consider the question of Germany's obtaining a foreign loan.

"That an Expert Committee be appointed to consider and report to the Commission on the conditions under which the German Government, regard being had to its obligations under the Treaty of Versailles and in particular under the Schedule of Payments of May 5th 1921, could raise foreign loans to be applied to the redemption in part of the capital of the Reparation debt.

The Committee will in particular consider:

- 1) The terms on which such loans could be raised and the amount which might reasonably be expected to be obtained in the near future and in particular in the course of each of the next two years.
- 2) The security which could be made available for potential lenders without undue prejudice to the future interests of Reparation.
- 3) The manner in which the revenues and other assets assigned to the service of the loans should be controlled and administered and the relations to be established as between the German Government, the representatives of the lenders and the Reparation Commission.

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

The Committee will be constituted as follows:

Monsieur Leon Delacroix Belgian Delegate to the
Reparation Commission. Chairman.

Signor d'Amelio Italian Assistant Delegate to the
Reparation Commission. Vice Chairman

A representative to be nominated by the German Government.

A British financial Member.

A French financial Member.

An American financial Member.

A Financial Member national of a country which took no
part in the war.

The British, French and American financial members will be appointed by the Commission upon the recommendation of the British Delegate, the French Delegate and the American Unofficial Delegate respectively. The Financial Member national of a country which took no part in the war will be appointed by the Commission on the joint recommendation of the Chairman of the Committee and the German representative. The financial Members will be persons having practical experience in regard to the placing of Government Securities.

The Secretary to the Committee will be nominated by the Reparation Commission upon the recommendation of the Chairman of the Committee."

The foregoing resolution has been published in its full text in the press and it is therefore public property. Confidentially, Boyden in a cable to the State Department under date of April 5th transmitted the following, viz:

"FIRST. Commission decided Tuesday appoint Committee consider possibility German foreign loan. Committee to consider probable terms, amount, security, also relations between lenders, Germany and Commission. Committee to consult Government loan experts all financial capitals with purpose formulating plan for approval German Government and Commission.

SECOND. Delacroix Belgian Delegate Chairman; d'Amelio Italian Assistant Delegate Vice-Chairman; German representative hoped will be Bergman; financial members one each British, French, American and neutral, all to be persons having practical experience

placing Government securities, appointed by Commission on recommendation respective national Delegates; Delacroix excellent choice for Chairman under existing conditions. Bradbury expects appoint Sir Robert Kindersley Governor Hudson Bay Co. and Director Bank England. We strongly recommend our making nomination. Suggest Ben Strong. If Department objects to my making any nomination, Commission, which of course very desirous having American representation, will be willing make American appointment itself without nomination by me; in which case you can, if desirable, suggest names for consideration. Nomination would be distinctly financial expert, would not represent or express Government opinion.

THIRD. This is really serious constructive effort get reparations and all German obligations on business basis. Effect hampered slightly for present by restricting Commission on demand French Delegate to existing requirements Treaty and Schedule of Payments, but this restriction will disappear if Committee finds, which seems unavoidable, that even small loans impossible while requirements upon Germany remain unchanged. We therefore regard project as opportunity for world financial opinion express itself effectively with great possibility beneficent result. Should hope final result to be recognition of fact that Germany cannot pay what she is capable of paying until total obligation brought within limit her capacity. I am sure this purpose in minds all delegates except French, and even he also certain French Government officials give hints of possibility change French policy if supported by assurance or hope of substantial payments cash thru medium such loan.

FOURTH. This Committee project likely to be extremely helpful in approaching deadlock between Germans and Commission resulting from recent Commission's decision about payments for 1922. Germany seems sure to answer she cannot meet conditions imposed by this decision. Cannot predict results but would expect prompt report by Commission to Governments of German default perhaps without discussion with Germans even if Germans ask for further discussion. If this happens France sure ask Allies cooperate in further sanctions and may feel compelled by public opinion to act alone if Allies

refuse. French attitude Chamber debates has stiffened perceptibly recently. The loan Committee project will act as sort of safety valve enabling discussion and time for calmer reflection".

You will note that your name appears quite prominently in Boyden's despatch. We of course do not know what the attitude of the Government will be and we don't know whether or not you would like the job if our Government decides to go in and if they want you to come abroad for the purpose. It however shows Boyden's and my feelings in the matter.

Since the above cable was sent the German Government has officially nominated Bergman as the German Representative. The French have nominated Sergent, Président de la Banque de l'Union Parisienne, at one time Premier Sous-Gouverneur de la Banque de France et ancien Sous-Secrétaire d'Etat aux Finances, as French Member. Delacroix and Bergman have agreed to nominate Dr. G. Vissering, Président de la Banque Néerlandaise, a Dutchman, as the neutral Member. It has not as yet been ascertained whether Vissering will accept as he is said to be in bad health, but both Delacroix and Bergman are of the opinion that he will.

The French are very anxious now to push forward the work of this Committee so as to have it in being before the reparation question is brought up at Genoa. Delacroix informally expressed the same view. He told me yesterday that he, d'Amelio and Bergman were all representatives of their Governments at Genoa, and would have to leave Paris within three days making it impossible to have the first meeting here, and tentatively suggesting convening at Genoa. In view of the present attitude of our Government concerning Genoa, I told Delacroix that in my personal opinion it was an unfortunate place to hold the first meeting. I am always somewhat suspicious and inclined to search for the ulterior motive and ~~was~~ therefore questioned Delacroix' real motive. I expressed this doubt quite frankly and Delacroix replied that it was obviously impossible to have a meeting in Paris before his departure for Genoa; that he had to go to Genoa as he was the principal Belgian Delegate and that the only way he could see to head off open discussion of the reparation question in the "Genoa Conference" proper was to have the machinery available at Genoa for a meeting of the Reparation Commission's Committee. This was only partially satisfactory to me. I am inclined to believe the proposed meeting at Genoa is a compromise agreement between the conflicting French and British positions. Under the compromise, Poincaré would gain his point in not having the reparation question considered by the formal "Genoa Conference", whereas Lloyd George would gain his by having the reparation question considered at "Genoa", in other words a certain political "eyewash". The possibility of good constructive work being accomplished by the Committee of Financiers is in my opinion not affected one way or the other by convening at Genoa. The

difficulty I foresee, which will also occur to you, is the unquestionable fact that Lloyd George will undoubtedly "pull" our foreign loan question into the Genoa Conference. Delacroix is not above playing this same game and I politely told him so. In reply he said that the loan question would come up at Genoa, but if our Government saw any objection to having the Committee of Financiers meet at Genoa, he was prepared to leave Genoa, come back to Paris to hold the meeting. In my view this latter procedure would be the best and if our Government shows any interest Boyden and I will suggest to Delacroix the latter alternative. However all of the foregoing will be cleared up at home even before you see this letter.

In my letter to you of March 24th as Exhibits A and B I transmitted a copy of "the decision" and "the formal letter of the Reparation Commission which has been sent to the German Government under date of March 21st 1922". Those enclosures were translations of the original French text and were faulty in some particulars. I enclose herewith a copy of the authentic English text which has equal force with the French text and which has also been transmitted to the German Government. You will notice from this new English text that there are many more "loop-holes for escape" from the "ideal" premises of the first translation.

Faithfully yours,

John A. L. Jr.

JAL/BD
1 encl.

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

Loose in file

JAMES A. LOGAN JR.

ACKNOWLEDGED

JUN 23 1922

Paris, 18 rue de Tilsitt.
7 April, 1922.

B. S.

PERSONAL & CONFIDENTIAL

My dear Ben,

I forward herewith as of possible interest to you the following:

- Loose in file*
- Annex 1342a, b, - Draft Law relative to the Autonomy of the Reichsbank.
- Annex 1347a, b, - Report from the Delegation of the Committee of Guarantees at Berlin on the Draft Law Granting Autonomy to the Reichsbank. (This document is only interesting as giving a short resume of the Draft Law Annex 1342 above. The recommendations of the Delegation as set forth in the document were considered by the Commission before the Commission's "ideal" letter of March 21st was sent to the German Government and these recommendations were largely ignored.)
- Loose in file*
- Annex 1358a, b, c, - Decisions of the Meeting of Allied Finance d, e, f, g. Ministers of Belgium, France, Great Britain and Italy, held in Paris on the 8th of March 1922. (This is the English text of the document I already sent you in French).
- Document Berlin 568 - Financial Position of the Reichsbank for Period ending March 20, 1922.
- Document Berlin 573 - Reichsbank Weekly Statement.
- Loose in file*
- I. S. 629 - The French Debt on January 1, 1922.
- I. S. 641 - Weekly Balance Sheet of Hungarian Bank.
- I. S. 642 - Weekly Balance Sheet of Austro-Hungarian Bank.
- I. S. 643 - Development of Principal Items of the Balance Sheets of 13 Viennese Banks.
- Annex 1354 - Note from the Intelligence Service, Vienna Office on the Credits Granted to Austria.

"Memorandum Regarding American Visit" of Sir William Goode. This was handed me for my personal information by Goode and may interest you as it contains references to your conversation with him. I have never been inclined to take Goode very seriously though I personally like him very much.

Faithfully yours,

JAL/BD

The Hon. Benjamin Strong,
New York City.



C797

April 10, 1922.

Dear Eliot:

This is to acknowledge and thank you for copy of
cable No. 126, dated March 18, advising of further
Reparation payments by the Reichsbank.

Yours sincerely,

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

BS.MM

PERSONAL AND CONFIDENTIAL

April 11, 1922.

My dear Logie:

Since the receipt of yours of March 24, I have been called out of town once or twice, last week in Washington, and only Friday was able to read over the enclosures. They are most interesting. Now we must await the attitude of the German Government; I assume that it will be a vigorous effort to resist their demands, and that they are playing for a hearing on the subject at Genoa, even though it may be behind closed doors.

Referring again to the proposal for a committee of experts to inquire into the possibilities of Germany floating external loans, you realize, of course, that this contains a possibility of real good only in the event that the scheme of payments is ^{is} reasonable and feasible one, and the possibility of greatest good only in the event that a considerable part of such loans can be placed in the United States, and possibly in some of the neutral markets.

Privately discussing this matter with some of our important bankers, I gain the impression that a loan would be possible in this country under the conditions now prevailing for a considerable amount, assuming that the following conditions could be met: (1) adequate security and priorities would be given. I do not mean necessarily pledges of national property, but rather priorities over certain other classes of payments to be made by Germany, and some prior claim on customs, or something of that sort. (2) that the Reparations plan is generally regarded here as a feasible one. (3) that our government conceives it to be in the interest of the citizens of the United States. In other words that it be either affirmative or passive approval.

April 11, 1932.

Do not attach too much importance to this, however, as it was simply a statement by one important firm, and made quite offhand as an expression of opinion only.

The next most important step from our standpoint would be to have the Funding Commission ratified by the Senate, and negotiations commenced. Until that is under way, I hardly can expect much progress here toward public or private interest in reparation matters.

There is a growing sentiment that we should be officially represented on the Reparation Commission, and feelers are certainly being put out to see whether it would not meet with public approval.

Some one said that you might go to Genoa as a scout or observer, or in some capacity. If you do, I will be intensely interested in hearing what transpires. A news dispatch from there boldly asserted that a prominent official of the Federal Reserve Bank was ^{co-}operating with Delacroix and officers of other banks of issue in connection with the German credit plan. This must have referred to my brief correspondence with Havenstein, or else came from the English, who were acquainted with the substance of it. It is not good news, however, to appear in press dispatches, because, in the first place, it is not true, and, in the second place, it would create a false impression here of our real position.

Progress on 1718 is most encouraging. The contractor promises to be ready for a house warming on May 20. Basil is busy as a hunting dog trying to duplicate everything that was in the house, and with considerable success. I am keen to have it finished and feel at home in Washington once more.

Please remember me to Boyden, and my best to you.

Sincerely yours,

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

BS.MM

ACKNOWLEDGED

APR 24 1922

B. S.

JAMES A. LOGAN JR.

Paris, 18 rue de Tilsitt.
14 April, 1922.

Correct
St. Louis
ms
letter Apr 24

PERSONAL & CONFIDENTIAL.

Subject: Reparation situation, Genoa
Conference, etc.

My dear Ben,

My last two letters to you were dated April 6th and 7th.

I enclose herewith, viz:

Exhibit A - Copy of reply of the German Government dated April 10th to the "ideal" Commission's letter of March 21st.

Exhibit B - The Reparation Commission's reply to the German letter (Exhibit A).

Loose in file

The German reply was stupid; a more or less blunt refusal of the conditions imposed in the Commission's letter, without any redeeming features, and obviously a political maneuver to force the Commission to immediately notify the Allied Governments of Germany's technical default under the Treaty and thus raise the reparation question at Genoa. The Germans are unsuccessful todate in this maneuver as you will note by the Commission's reply (Exhibit B) and there are indications that they have had a "change of heart" as reports just received from Genoa are to the effect that "the Germans themselves do not intend bringing up the question".

In my view no useful results would come from any consideration of this question at Genoa. It would probably lead to the withdrawal of the French from Genoa and a smash up of the Genoa Conference. I doubt if Lloyd George is strong enough at this writing to carry on at Genoa without the French, though this situation might change before the conference is over.

Poincaré announced the other day that "if the Reparation Commission reported Germany in default, the French Government reserved its liberty of action". In other words, this was a statement to the practical effect that Poincaré was not committed to participate in any so-called "Supreme Council" or other Interallied meetings on the reparation question. I don't know of course what action Poincaré would take if a default was officially reported by the Commission under his reserve as to "liberty of action". There has been a decided stiffening in the French parliamentary attitude which might lead to insistence for a far reaching control of German administration or even to military pressure. I believe Poincaré would incline to the control feature and that he is too conservative to embark on any military adventure. I think however that Poincaré's intention or bluff, whichever you want to call it, is reflected by the German

"change of heart" as to bringing up the question at Genoa.

The Germans have behaved stupidly, particularly during the last few weeks, and need a sharp round up. In addition to their stupid letter (Exhibit A) they have placed every obstacle in the way of increasing the volume of "deliveries in kind" on reparation account. The Commission's representative sent to Berlin for the purpose of formally exchanging the final drafts of the so-called "Bemelmans Agreement" concerning deliveries in kind returned advising that Rathenau now took the position that "this agreement could not be put into effect without both the approval of the Government and of the Reichstag; that the principal members of the Government were going to Genoa and that the Reichstag was shortly taking a vacation, and that therefore nothing could be done until some time late in June at the earliest". This was a complete volte-face of the German Government as Rathenau previously stated that the agreement needed only to be confirmed by the Government which was a mere formality. The foregoing was in line with the German scheme of forcing the Commission to report a default forthwith.

I do not want to convey the impression that I consider it possible for Germany to effect deliveries in kind up to the volume and value publically contemplated by the various agreements or that all the agreements which have been negotiated are perfect, as this is far from my view. On the other hand this method of reparation has considerable possibilities and was advocated by the Germans through Rathenau. Most of the material to be delivered under the "Wiesbaden", "Bemelmans" and subsidiary agreements (now delayed pending Reichstag approval) is really required for reconstruction purposes in war devastated areas. Rathenau's ulterior motive in negotiating these very liberal "delivery in kind agreements" was "a gallery play" knowing as he did that the ultimate effect would be to automatically close down large industries in the beneficiary countries with the result that public clamor in the same beneficiary countries would force an early discontinuance of the system. I am convinced that practically no undue burden as to volume will ever be obtained. The war devastated areas have not as yet been reconstructed, certain German materials are needed for the purpose and it is up to the Germans to carry out their agreement in good faith.

The Reparation Commission's reply (Exhibit B) occasioned a passage of arms between our British and French friends. Dubois took the position that he was in agreement with Bradbury and the others that

the Commission should swallow its pride and not report Germany in "default" to the Allied Governments until May 31st or the final date set forth in the "ideal" letter of March 21st. He refused however to agree that there were any "loop-holes" in the March 21st letter and that if on May 31st the exact provisions of the "ideal" letter were not carried out Germany was ipso facto in default and the Commission could have no other duty than to so report to the Allied Governments. Obviously, Dubois was afraid of Lloyd George's Genoa Conference and did not want to give the Germans excuse for calling up the reparation question there, at the same time reserving for France "complete liberty of action" after May 31st. Bradbury took the position that there were "loop-holes" in the March 21st letter; that if on May 31st the exact provisions of the "ideal" letter were not carried out the Commission was still in a position to re-examine the whole question, and therefore proposed intimating to the Germans in the Commission's reply that the latter was willing to consider alternative proposals from the Germans before May 31st. In other words the Commission and not the French "reserved its own liberty of action" on and after May 31st. Bradbury, as an alternative proposal, intimated that if Dubois insisted he was reluctantly prepared to admit that Germany was in default today and might join the Commission in forthwith making such report to the Allied Governments. He pointed out however that this would certainly raise the question at Genoa and that a Supreme Council meeting probably at Genoa would be the only solution if the French and British policies were to be kept "on the same track". According to Bradbury, if a Supreme Council or other form of Interallied Conference was not possible, under French policy, to consider the situation created by the Commission's report of default, the only result was a "very wide divergence of orientation between British and French policies on the entire question".

All the foregoing will be cleared up in the press before you receive this letter. However I ventured sending you these sidelights in some detail as they are essential to a real appreciation of the situation as it develops. You will note from Exhibit B that Bradbury has won his general point though I feel that he may have to concede something on "the control" feature after May 31st. The situation has been fairly critical the last few days and I am glad that this, if only temporary, "armistice" has been reached.

Now as regards the Committee of Financiers. Vissering has formally accepted to become the neutral Member. Kindersley is still considering whether or not to accept as British Member. The frame up today is therefore Delacroix, President; d'Amelio, Vice-President; Sergeant, French Member; Vissering, neutral Member; Bergman, German representative, probably though not sure Kindersley, British Member. No American member yet appointed. The first meeting of the Committee will probably be held in Paris on or about May 15th; previous talk of holding a meeting at Genoa has been discontinued which I believe to be most wise. While I can well appreciate the almost insurmountable difficulties of our Government in officially appointing an American

Parsons

member to this Committee, I hope they will at least indicate that they have no objection to the Commission itself appointing some American financial representative and that if so appointed the State Department will give the man every possible support. The present outlook ahead is not very rosy. As a matter of fact it is decidedly bumpy and I know of no better calming influence than the efficient work of this Committee of Financiers and it deserves the best practical financial talent that we have in our country.

Confidentially, the State Department has cabled us that you, in view of your prominence and close affiliation with the Government, are too official to send over for the purpose. I am disappointed but ~~believe~~ the State Department is right. On the other hand the Department indicates that it has no objection to the Commission itself nominating an American member, though it has not as yet definitely authorized Boyden to say so. I think this is a good move and I am sure that in a few days we will receive some indication of the name of the man whom we can hint to the Commission to designate.

In addition to Exhibits A and B, I enclose herewith copies of the following documents, as being of possible interest to you, viz:

- ✓ Paris Document 556 - The Transfer abroad of the Gold Reserve of the Reichsbank.
- ✓ Paris Document 576 - The Situation of German Banks of Issue at end of February 1922.
- ✓ Paris Document 581 - The Dividends of the Reichsbank.
- ✓ Paris Document 583 - Consignments of Gold sent by the Reichsbank to the Bank of England.
- ✓ Paris Document 588 - The German Exchanges at the Beginning of April 1922.
- I. S. 652 - Weekly Balance Sheet of the Austro-Hungarian Bank on March 15, 1922.
- ✓ Berlin Document 594- Financial Position of the Reich for period Ending March 31st 1922.
- ✓ Berlin Document 595- Reichsbank Weekly Statement for Week Ending 31 March 1922.
- ✓ Berlin Document 598- Control of Export Bills by the Reichsbank. Note from the Intelligence Office at Vienna on "The Rise in Foreign Exchange and its Effect on Prices".

Faithfully yours,

John A. L. Jr.

JAL/BD
12 incls.

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

(over)

P.S. - Confidentially I am leaving Paris April 17th for Genoa, where I will probably stay a couple of weeks. I am not going in an "official" or "unofficial" capacity but purely in an "informal" capacity. It looks as if it would be an interesting trip.

7-2-41

ACKNOWLEDGED

APR 24 1922

B. S.

JAMES A. LOGAN JR.

18, rue de Filsitt,
Paris, April 15, 1922.

Personal and Confidential.

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

Subject:- REPARATION SITUATION AND
COMMITTEE OF FINANCIERS.

My dear Ben,

My last letter to you was dated April 14th. You will probably feel highly honored by receiving an additional letter from me at such an early date. My family would feel highly flattered were I to honor them as often as I honor you. However, I enjoy writing to you, particularly as I get some reactions through various sources indicating some fine Italian handwork on your part. All of this I feel to be constructive.

I have just received your good and confidential letter of March 28th. A portion of your questions, particularly those concerning the "autonomy" of the Reichsbank have been answered by my letters which have caused yours. I am taking up your letter point by point and as soon as I return from Genoa I will give you a comprehensive reply. In passing I may say that I am much impressed by the idea you give me as to your surmise on the operations of the German industrial of the Stinnes type (see page 2 of your letter). I think I will be able to get a line on this. There is another phase of the same situation concerning taxation.

Under the present system the German industrial is today paying his taxes on the mark valuation of his plants and business on the basis of the paper mark valuation of three years ago. In other words, when collecting such taxes, no account is taken of the tremendous inflation of the German paper currency in relation to the real value of industrial property. Pretty good business for the industrial.

Now as to reparation questions. Please attach no importance to the "passing ~~of~~ arms" of the French and British delegates as described in the first part of my letter of April 14. This I feel was simply a display of "French nervousness" at Lloyd George and has no other special importance. I am not a keen admirer of Lloyd George and his methods; considering his usefulness ended. I have sympathy with the French and their suspicions. I am gradually becoming convinced that Poincare is swinging to conservatism and using his best efforts to arrive at a business settlement of the reparation question. This is clearly indicated from every "sane" source I hear in France. Poincare fully realizes that the reparation question is not possible of settlement and liquidation by messing into it of "supreme councils" and other forms of "wind-bag politics" and would like to get ride of his responsibility in the matter by leaving the solution of the question to the Reparation Commission, or in other words, to the agency established by Clemanceau's Treaty of Versailles for this purpose. I

believe Poincare wants an early settlement and would accept the Commission's decisions. It is up to the Commission to stop writing "ideal" letters and other forms of "cold storage ultimatums" to the Germans and get down to business. It is to the interest of our Government to help and I can see no better way at present than (first) to use its best efforts in supporting and protecting the Reparation Commission from political interference and (second) in so far as it may be possible, aiding the work of the Commission's Committee of Financiers.

I fully agree with you as to the difficulties of floating an international loan at this time in America. However, the following is interesting. Jay, one of the partners of Morgan-Harjes & Co., informed me quite confidentially the other day that the French Treasury informally asked Morgan's advice as to the practicability of Germany raising a foreign loan for reparations. The French Treasury indicated the possibility of the French Government agreeing to a reduction of the reparation bill as well as other conditions necessary to Germany's securing a loan on a business basis. Jay said that Morgan's were impressed with the possibilities and I gathered that they have even gone so far as to suggest their willingness to undertake floating such a loan if the French and British and German Governments jointly made the request and if it were supported by the Reparation Commission. The figure as to the amount of the loan which was discussed was substantial. I gathered that the view was that such loan must be an international loan subscribed to proportionately by the Allied and Neutral Powers and ourselves and based on sound business premises. Were the first loan of this character a success I gathered that there was reason to believe that additional loans might be forthcoming thereafter. I believe the foregoing to be very significant as indicating not only the French change of view but also the practical business interest in the matter.

Almost immediately after seeing Jay I lunched with Bradbury and Sir Robert Kindersly. Kindersly is apparently not quite sure as to whether or not he would accept the appointment as British Member on the Committee of Financiers, but was chewing it over and obviously "feeling the bait" quite seriously. It was, however, extremely interesting to hear him talk, for his ideas and plans ran along the identic lines with those a few hours previously told me by Jay. I kept my mouth shut but I went away with the firm conviction that He had full knowledge of the plan discussed at Morgan's. While I do not attach too great importance to either Jay's or Kindersly's conversation, it nevertheless has its significance, which you can readily grasp. The foregoing, and particularly as relating to the Jay and Kindersly conversations, is most confidential. Jay has just returned to Paris from New York after having spent a month or six weeks in the Morgan New York office.

I plan staying in Genoa for four or five days before returning to Paris. This is about the maximum length of time that one can effectively work in an "informal" capacity. I will make another trip to Genoa on the same business the early part of May.

Henry Fletcher has just turned up looking fat and sassy. I am delighted to see him.

Faithfully,

John A. L. Jr.

April 17, 1922.

My dear Logie:

I have read yours of March 31 with the closest interest once more.

It begins to look to me as though France were getting ready to withdraw from her adamant position in respect to a moratorium for the Germans, and without necessarily coupling with it demands for sanctions. That certainly would be wise, for sanctions may involve spending more on occupation forces than they will collect on reparations as the result of such a policy.

I have been told that Bradbury, or Boyden, or somebody on the commission, had suggested that I should serve in some way with the committee of experts to examine into German foreign credits, but of course I know nothing about it, and await information before forming any opinion. Can you give me any news on the subject?

As I have written you before, I believe, from this distance, that the danger in dealing with the allied debt to this country entirely independently of the other inter-allied indebtedness and of reparation payments, lies in the possible development of sort of an economic alliance, which would bring all of our debtors into an association of a character that might not be altogether agreeable or profitable for us. Now that the Funding Commission has been confirmed by the Senate, I am banking upon their being able to get the real facts and have some constructive and helpful policy to suggest which will enable us to escape some of the factors inherent in the position of ultimate creditor of the rest of the world. You probably know the old saying that "the borrower is the servant of the lender". That is only partly true. When the borrower cannot pay the lender becomes the servant of the borrower! I am leaving for Washington tonight and will try and have a talk with some of those who will deal with these matters, but I presume it will be quite a time before they really get the basis of information required before any policy can be adopted.

In the meantime, I am enclosing with this, in the strictest confidence, copy of a memorandum which I sent last week to Secretary Hughes, and copies of which, through him, have also reached Secretaries Mellon and Hoover. I think you should read it because it deals with what I believe are the fundamentals in regard to international loans just now from our standpoint.

All that you send me in the various enclosures with your letter are of great service, and I hope you can continue to do so.

Please give my best regards to Boyden, and the same to your good self.

Faithfully yours,

James A. Logan, Esq.,
18 Rue de Tilsitt,
Paris, France.

COPY.

Green. 997

Paris.

Dated April 18, 1922.

Received 8:16 A. M.

SECRETARY OF STATE
APR 21 1922
FEDERAL RESERVE BANK

Secretary of State,

Washington, D. C.

164 April 18, 10 A.M. B-674.

German Government announces payment 770,000 pounds,
10,000,000 French francs; approximate value 18,129,000 gold marks
due April 15th, commission decision March 21st our B-664 subject
Belgian-French agreement, our B-654. Miscellaneous receipts since
April 7th, 850 pounds proceeds war material paid England account
army costs prior to May first. Payments not yet confirmed.
Boyd.

HERRICK.

WSB

CONFIDENTIAL

April 21, 1932.

My dear Logie:

I was deeply pleased that you were good enough to write me under date of April 8, giving the story about the appointment of the expert committee.

Please regard this letter as equally confidential as yours.

It had been intimated to me that the suggestion which you and Boyden were good enough to make was a possibility, although I did not hear it from our friends in Washington. The result, however, has been that Mr. Morgan has been appointed, and I am confident that it will be much better than to have me serve. There are a variety of reasons for this. One is that he is entirely non-official. Another is that he would very truly represent the investment bankers, as distinguished from the commercial bankers. Another is that it would give his firm a more direct picture of the situation than would be possible were they simply negotiating a loan in this matter. Still another is that some embarrassment would be certain to arise were I to serve because of the popular belief that the Federal Reserve Bank is in some way a part of the government. And still another reason is that I believe some of our friends in Washington feel that I hold rather positive views as to the reparations program, and that those views might appear to be representative of an official point of view, which of course would not be the case necessarily.

I agree with all that you say, and with which I presume Boyden is in accord, as to the great opportunity presented by this program, and most heartily agree that it would be inadvisable to have the meetings in Genoa. I do hope you can avoid it. Paris would be much better; but possibly it would be still better to meet right in Germany. You are, of course, a much better judge of this than I am.

The thing that I most fear as a possible development is that the members of the committee, especially those who are liable to be influenced by the pressure to collect reparations, will be inspired to put through some sort of a loan which will produce cash regardless of whether Germany voluntarily, or otherwise, adopts sound financial and monetary policies. Beyond everything, it strikes me that the internal economy of Germany must be improved, and progressively improved, before the world is justified in making loans for the purpose of financing reparation payments.

From this point of view, I should suppose that a loan could be made an inducement for a moratorium, or a further great reduction in cash requirements with any adjustment necessary in payments to be made in goods, and that the period of the moratorium, which probably need not be very long, say, a year or two, could then be employed under suitable stipulations for the introduction of some plan of internal reform.

#2

April 21, 1922.

Feeling this as strongly as I do I can only express the hope that the committee, and especially the political chiefs standing behind the committee, will not be lured into an unsound scheme by the attraction of some good American dollars, which may not even be forthcoming, unless the basis of the loan is adequate reform.

I have not yet read the enclosures with your letter but will do so and write later if anything occurs to me.

Sincerely,

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

BS.MM

797

MAILING DIV
APR 21 1922
FEDERAL RESERVE BANK

April 21, 1922.

Dear Elliot:

I thank you for copy of the cablegram received from Paris under date of April 18 addressed to the Secretary of State with respect to reparation payments. I appreciate your courtesy in keeping me advised as to these payments.

Yours sincerely,

GOVERNOR STRONG

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

CSB

Green
Dated April 22, 1922
Received 9:59 a.m.

Secretary of State

Washington.

173 April 22, 3 P.M. B-678.

Payments our B-674 confirmed, also \$25,238 April 14th
textile alliance subject Belgian-French arrangement. Boyden.

HERRICK

WSB

PERSONAL AND CONFIDENTIAL

April 24, 1922.

My dear Logie:

I have not yet been able to fully digest your fine letter of April 14, with the various enclosures, but will do so and reply to that specifically in the course of a few days. Meantime yours of the 15th arrives and I want to comment a bit on that portion of yours of the 14th and yours of the 15th, as to the committee of experts to deal with the question of German credits. Of course, I very much appreciate the suggestion which you and Boyden made to the Department in regard to my appointment. It was a fine and friendly and complimentary thing for you to do, but of course you realize that it would have given me a lot of trouble and might have gotten me into a lot of trouble had it passed the sieve of the Department. I am very glad it did not. The appointment of Jack Morgan is very much better. He stands for the American investment market as distinguished from the bankers, as we do in the latter case, and he can approach the situation with more money in the show case of the character that Germany requires than I could. The fact is that if I am to be of any service in the situation it will be in connection with the ~~reconstruction in connection with the~~ conference of the banks of issue, which matter as you doubtless know is before us just now. This is very confidential. I cannot yet tell what the attitude of our government will be, and shall not write you in detail until there is more to write.

I have had many talks with the Morgans about the possibility of a German loan. Morgan is cabling his acceptance of the appointment to-night, and I am rather fully aware of his view as to getting the money here. If undertaken fairly promptly, I think a large amount could be raised, but I do not think it could be raised unless the country was satisfied, on the one hand, that reparation exactions did not exceed capacity to pay, and, on the other hand, that the German Government was running its affairs on a really business basis, which I am very sure they are not doing; the only doubt in my mind being whether it is wilful and deliberate, or ignorant and stupid.

Inquiries along the line of my letter of March 28 will disclose a good deal which could not be otherwise understood, and I am much impressed with your brief comment about the tax situation.

As to the German loan itself. It should be offered in England and France, and possibly some other countries, as well as here. That gives a certain assurance that the "buck" is not being passed to us. It is not, in my opinion, absolutely essential that a considerable amount of the proceeds, (how much must be determined at the time) should be allowed for actual work of reconstruction of the German economic structure, rather than paid over in toto to the reparation beneficiaries. All of these are my personal opinions, and I could enlarge upon them at much length, but at the risk of exposing possibly an undue degree of prejudice, on the one hand, against unreasonable exactions from Germany, offset, on the other hand, by condemnation of the stupidity of the whole German program as to internal economy. They seem to be wretched, bad housekeepers, and I am only sorry that this is so.

X
See
May 15
letter

April 24, 1922.

One other point bearing upon the loan has to do with the German-Russian Treaty. We probably got garbled accounts of what has transpired; but the impression here seems to be fairly general, certainly the press so represents it, that Germany did a "slick" trick and that her explanations have exposed the fact that it was disingenuous. Possibly this is stating it too strongly, but it is the press point of view, and that makes the public point of view.

Kindersley is a fine fellow. I am not just sure how strong he is in a cold blooded business situation, and sometimes have thought that his heart rules his head, but of course behind him will be Norman of the bank, who is both able and dependable.

A little bit later, after digesting your letters more carefully, I will write you more fully. I do hope our correspondence at least gives you the benefit of a detached point of view, which sometimes is a help. Yours affords me a great pleasure, and gives just the sort of local color that we need and cannot get except by such means.

With best regards to you and all our good friends in Paris, I am,

Yours sincerely,

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

BS.MM

The President seems to have told the press after Cabinet meeting to-day that he wants me to go to London to the banks of issue conference.

JAMES A. LOGAN JR.

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

ACKNOWLEDGED

JUN 23 1922

B. S.

PERSONAL & CONFIDENTIAL

My dear Ben,

My last letter to you was dated April 16th.

I have just received your letter of April 11th. A good deal of water has gone under the bridge since your letter of April 11th was written, it is therefore hardly necessary to refer to it in detail herein. It was extremely interesting however and I am much obliged to you for sending it. I fully realize your feelings relative to the press reports from Genoa concerning your possible affiliation with the Genoa work. I at once took the necessary steps to stop it from going any farther. However in the meantime American press despatches have been referring to the possibility of your coming over in connection with the Genoa proposals for a meeting of representatives of central Banks. I don't know whether this is true or not and am passing the information on to you for what it is worth. I have had somewhat the same experience with regard to my recent informal visit to Genoa. The Chicago Tribune three or four days after my quiet departure from Paris found out that I had gone and came out with a statement which they spread broadcast to the effect that my visit to Genoa had to do with "the protection of Standard Oil interests". I don't know anything about the Standard Oil or its interests. The story made me mad, but it can't be helped. It is however so foolish that I don't think much damage was done.

I enclose herewith, for your confidential information, copy of a report of my recent visit to Genoa which I sent to the State Department. I hope it will interest you. I also enclose copy of the final recommendations of the Financial Commission which are referred to on Page 2 of my report.

I also enclose as being of possible interest ^{to} you the following, viz:

- C.G. Annex 222a - Control of Foreign Currency by the Reichsbank.
- Doc. Berlin 611 - Reichsbank Weekly Statement.
- I.S. 667 ? - Monthly balance-sheets of the Soviet ?
State Bank.
- I.S. 676 - Weekly Balance Sheet of the Austro-Hungarian Bank.
- I.S. 685 - Weekly balance Sheet of the Hungarian Bank.

Faithfully yours,

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

James A. Logan

JAMES A. LOGAN JR.

Paris, 18 rue de Tilsitt,
5 May, 1922

PERSONAL & CONFIDENTIAL

ACKNOWLEDGED

JUN 23 1922

B. S.

Subject: The Russo-German Treaty, The
Reparation Situation, Committee of
Financiers.

My dear Ben,

My last letter to you was dated April 28th.

I enclose herewith, viz:

Exhibit A - Copy of the so-called Rapallo Treaty of April 16th between the German and the Russian Soviet Government.

Exhibit B - Opinion of the Legal Service of the Reparation Commission after its examination of the Treaty of Rapallo of April 16, 1922.

Exhibit C - Copy of letter dated May 4, 1922, from the Reparation Commission to the German Government concerning the Treaty of Rapallo of April 16, 1922.

It will be observed from Exhibit C that the Reparation Commission after a deliberate examination of the Rapallo Treaty has found no substantial legal objections to it. The fact nevertheless remains that it was an extremely stupid act on the part of the Germans as its only result was in stimulating the ever ready suspicion of under-hand action on the part of the Germans. Effectively the Germans have gained little by this agreement with the Soviets while on the other hand they have lost much confidence with both allies and neutrals. The incident is now closed and apparently the French public as well as the French Government have accepted this deliberate decision of the Reparation Commission with excellent grace, which is a good sign. This is all the more interesting as it was the French themselves who originally raised such a row at Genoa about the affair. Poincaré through Dubois was responsible for having the Treaty passed on by the Reparation Commission, this being in line with the Poincaré policy.

In my letter to you of March 24th I enclosed copies of the formal decision and letter to the German Government both dated March 21st, 1922, concerning a proposed partial moratorium in reparation cash payments and the conditions under which such partial moratorium was to be accorded. This was referred to in subsequent letters as the Commission's "ideal letter". In my letter of April 14th I enclosed a copy of the reply of the German Government dated April 10th to the "ideal" letter of March 21st, together with the Commission's reply to the Germans dated April 13th 1922. As stated in my April 14th letter, the German reply was stupid to the extreme and obviously a political maneuver to force the Commission to report Germany

Loose in file

in default under the Treaty and thus raise the reparation question at Genoa. The Commission however stood pat on their letter of April 13th and refrained from playing into German hands by reporting Germany in default. As little success attended the German efforts to raise the reparation question at Genoa, they addressed a letter in the following terms to the Commission under date of April 24th 1922, viz:

"In its letter of March 21, 1922, to Dr. Wirth, Chancellor of the Commonwealth, the Reparation Commission requested the German Government to revise the estimated expenditure of the draft budget for 1922, which was annexed to its note of January 28, 1922 (Annex 1247), and to submit this revised statement to the Commission within a month from the date of notification.

I have the honour to inform you on behalf of the German Government that the draft Commonwealth budget for the financial year 1922 is at present before the Reichstag, which is carefully examining it. Upon the completion of this examination by the Reichstag, the Reparation Commission will be informed of the result.

Signed: FISCHER"

The foregoing was a decidedly "poor effort" and might have precipitated a serious situation. However the saner German elements when they realised the situation this letter created "gained their day" and it has now been about arranged for the Germans to withdraw this letter and replace it by one couched in more conciliatory terms to serve as a basis for continuing negotiations. As a matter of fact the German fight for this conciliatory attitude is led by Hermes, the German Finance Minister, and Bergmann against Rathenau, the latter being responsible for the German policy in general and the April 24th letter in particular. Bergmann is now in Paris and Hermes is expected about May 8th. We all have confidence in both these men and believe that with them here in direct contact with the Commission much work of a constructive character will result.

We all feel more optimistic now as to the general situation than we have felt for the last two or three months, and this particularly as Rathenau's "vision of greatness appears to be waning". There is no question but that Rathenau was behind the "pro-Genoa" attitude of the Germans. Where he received his counsel I do not know but I presume our suspicions as to the source will coincide.

The really important phase of the whole situation today is that of the work of the Committee of Financiers whose meetings will start in Paris about May 22nd. It is becoming more and more obvious that the appeal of some quick hard cash is tempting to our French friends and that the only way they see to getting this cash immediately and in any substantial sum is through the medium of a German foreign loan. France certainly

needs the money and I will be glad to see her get it, provided it is based on sound business principles designed to effectively quiet the existing situation of periodical financial disturbances and "cold storage ultimatums". I am sure that the members of the Committee of Financiers who have real money in their "show cases" have this point well fixed in their minds, and my own judgement is that success will attend their efforts. I fully realize that their operation is "loaded" but I believe they can put it across without an explosion.

Naturally I do not know what is in the mind of any of the members of this Committee and if I did would have little competence to pass on their judgement. I personally know Delacroix, d'Amelio, Kindersley, Bergmann and Vissering. I don't know Morgan. I gather from what Bergmann has volunteered to say to me that he inclines to the view that the time is too early to approach a complete settlement of the reparation question, but what he would like would be a four billion gold marks loan floated which, while providing cash for the settlement of outstanding clearing office balances, essential German imports, some gold balances in reserve outside Germany for exchange operations, would also provide some five or six hundred million dollars for reparation purposes during the next four years. I rather surmised from what Bergmann said that he was fearful that if a more comprehensive settlement of the reparation debt was engaged at this time that Germany would still remain saddled with a total reparation debt (of some forty or fifty milliards of gold marks) which, in his opinion, was outside Germany's capacity. I am rather inclined to believe that holding this view he considered it in the best interest of Germany to put off a definite settlement to a later date or perhaps for four years. It occurred to me that the under-laying motive of this plan (if it actually be the German plan) is that by putting off the question a more favorable general settlement would be obtained. This might or might not be sound - however this phase will be explored by the Financiers who will reach their own conclusions. I gathered the impression from what Vissering "let drop" that he was for a much more general settlement of the reparation question than Bergmann. I would estimate Vissering's position as somewhere between that of Bergmann's and the British. I would not venture a surmise as to the French position though I am satisfied that will be largely controlled by practical considerations.

If I personally had anything to do with the matter I would incline to the "general settlement ideas" always provided that such settlement is within Germany's capacity and that at the same time Germany itself is forced to the immediate adoption of sound financial and monetary policies. The internal German situation must be corrected before outsiders are justified in lending money for the purpose of financing reparation payments.

I have received your personal and confidential letters of April 11th, 17th, 21st and 24th. All my thanks, they are fine. I will answer them at length within a couple of days. I note with particular interest the foot note at the bottom of your letter of the 24th concerning the information that the President appears to have given to the press concerning your possible visit to Europe. It is grand news.

I agree with you thoroughly on the Morgan appointment. Lamont has been over here the last week or so clearing the way.

I enclose herewith as being of possible interest to you the following:

- Document Paris No. 632 - Balance Sheets and Financial situation of German Undertakings.
- Document Paris 634 - Taxation of the Profits realised by the Reichsbank.
- Document Paris 635 - Purchase of Gold by the Reichsbank.
- Document Berlin No. 638- Financial Position of the Reich for Period Ending 20th April 1922.
- I.S. No. 687 - Fiduciary circulation and Weekly Balance Sheet of the Hungarian Bank on March 31, 1922.
- I.S. No. 694 - Fiduciary Issue & Weekly Balance Sheet of the Austro-Hungarian Bank on April 7, 1922.
- Annex No. 538/13 for January 1922 - Accounting Service Report concerning Deliveries by Germany and Distribution of Payments made to the Powers.

Faithfully yours,

John C. Frasier

JAL/BD
10 encls.

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

JAMES A. LOGAN JR.

Paris, 18 rue de Tilsitt.
12 May, 1922.

ACKNOWLEDGED

JUN 23 1922

B. S.

PERSONAL & CONFIDENTIAL

My dear Ben,

My last letter to you was dated May 5th 1922.

I enclose herewith copy of a letter dated May 9th 1922, from the German Government to the Reparation Commission. In my letter to you of May 5th on page 2, I gave the text of the German Government's original reply to the Commission of April 24th 1922, which was withdrawn. The new letter is couched in very much more conciliatory terms than the first and constitutes a fairly satisfactory basis for continuing negotiations. The German Chancellor has just telegraphed the Commission that Hermes, the German Finance Minister, will arrive in Paris the early part of the week beginning May 15th and requested that he be "heard informally by the various Delegates". The Commission, in view of the conciliatory terms of the new letter of May 9th, has indicated its consent to this arrangement. The proposal for "informal" conferences with the "various Delegates" rather than with "the Commission" is important at this time in view of the internal German political situation as well as the internal political situation of the various Allied countries. This manner of handling will put the affair on a much sounder business basis as it will avoid the publicity incident to "hearings before the Commission".

As indicated in previous letters, the general form of the enclosed letter of May 9th was suggested to Bergmann by certain members of the Commission. The fact that it has been largely adopted and transmitted may be considered as a victory for the more conservative German element as represented by Hermes and Bergmann.

The informal conversations with Hermes during the next few weeks should bring out the German position clearly. In view of past experiences the consent of the German Government to transmit the letter of May 9th is open to the suspicion that it may be simply another "temporizing expedient". It is sheer nonsense to talk either "reparation payments" or "foreign loans" until the German house is put in order or, in other words, until the Germans themselves put their finances and internal economics on a sound platform. To date they have not done this. We are hopeful that the Hermes conversations will lead to this. All the Delegates on the Commission are unanimous as to this necessity and I am therefore inclined to believe that Hermes will receive pretty straight talks which I hope will lead to results with the German Government. The patience of even the most conservative Delegates has pretty nearly

reached the breaking point under the past tactics of the Germans.

My Belgian friends have intimated that the Belgian Government has been somewhat disturbed by the world's impressions attached to the French flirtations with the Belgians following the Russian incident at Genoa. The French were very fearful of isolation after Genoa and were desirous of giving the impression that the Belgians were definitely lined up with the general French policy, not only the Russian but also the reparation policy. I am informed that Theunis (the Belgian Prime Minister) after leaving Genoa stopped in Paris for an interview with Poincaré. In the course of this interview he intimated to Poincaré that while Belgium fully supported the French in their position vis à vis the Russians, he wanted to fully reserve the Belgian position on reparations. In other words if the French contemplated forcing Germany into default on May 31st he was not prepared to say at this time what the attitude of the Belgian Government might be. I gathered that Poincaré was quite reasonable in the terms of his reply. According to my information, Poincaré said that the question as to whether or not Germany was to be put in technical default after May 31st was one for the exclusive determination of the Reparation Commission and that he intended keeping his hands off. He further replied that if the Reparation Commission actually reported Germany in default he, Poincaré, was entirely willing to participate in a meeting of the Supreme Council to consider either what sanctions should be taken against Germany or what other appropriate line of action should be adopted by the Allied Governments. I have always felt that this was Poincaré's real position. He has however a very difficult Parliament and public opinion to handle. There has been recently some rattling of the French saber (inspired newspaper rumors that "French General Staff planning occupation of Ruhr", "troops movements", etc..) which I presume has been reported in the American press but my best judgement is that the French will pursue a sane line of action.

You will doubtless hear rumors of some attempt to shake French Governmental confidence in Mr. Morgan. I don't attach importance to these rumors and presume that you have no difficulty in guessing where they emanate. The rumors are ludicrous in view of Mr. Morgan's well known pro-Allied feelings. They are however to the general effect that he has had a change of heart and has become pro-German. They are based on his reported views that "a very considerable proportion of any loan which may be floated by Germany must be applied to procurement by Germany of foreign foodstuffs and raw materials for internal German consumption with a consequent curtailment in the amount available for reparations". I don't know Mr. Morgan's personal views though I am convinced that they are based on sound financial and economic premises. I am however of the personal opinion that a certain amount of any foreign loan obtained by Germany will necessarily have to be applied to the very purposes indicated. I would not even refer to this rumor in this letter except that I know that it has reached many other ears.

It is rather curious that during my recent visit to Genoa

when talking with Sir Basil Blackett, the latter referred in confidence to a cable which the British Treasury had received from one of the leading New York Bankers not affiliated with the so-called Morgan group. This cable was couched so as to rather take the British to task for having agreed to the Morgan appointment rather than not having insisted on the appointment of the gentleman who sent the cable and intimating that much better results would obtain with the other appointee. While I am not quite sure but from what I gather after talking with some of my French friends, I am inclined to surmise that a cable in somewhat the same sense reached the French. As I have said before I attach little importance to all this gossip.

I am afraid that on page 3 of my letter of May 5th I rather exaggerated the impression I had as the under-lying motive of Bergmann's views concerning the proposed German loan. It might well be Bergmann's view that until our own position vis à vis our foreign loans be cleared up it would be impossible to reach the "general settlement idea" of the reparation question. I of course realize our embarrassment in this particular though it is admittedly difficult to divorce the "general settlement idea" from entanglement with the reparation question. In other words, it is pretty hard for "our foreign loan position" to prove that it is not one of the "co-respondents" in the "reparation scandal". I hope and expect however that the principals of the "reparation scandal" will have the good taste to omit mentioning the names of any co-respondents, as this is obviously so necessary if anything approaching cooperation on our part at this time is desired.

I have just been talking informally with Delacroix. Some of his present views as to the proposed German loan may be interesting. The conversation was privileged so I would not care to have it referred to. Delacroix is an adaptable fellow and will have no difficulty in climbing down so I don't attach any particular importance to it. His idea was that the effort should be made to float an eight billion gold mark loan of which two billion to be subscribed in Germany, two billion in France, Belgium and neutral countries, one billion in Great Britain and three billion in America. Six billion of the foregoing loan to be secured by German Customs revenues with such control as the Consortium might desire whereas the two billion to be floated in Germany to be secured by internal German Governmental assets: railways, forests, etc.. One half of the foregoing loan to be floated immediately, the remaining four billion in the next two or three years and before 1926. Interest to be at 6% per annum, amortization not to commence for ten years, the service of the loan to be made the first year and a half or two years from part of capital receipts so as to give Germany complete moratorium during this period. Under the foregoing plan two billion would be in gold marks, two billion in French and Belgian francs, one billion in pounds sterling and three billion in dollars. Delacroix was generally of the opinion

that it was impossible at the present and until such time as definite arrangements have been made as regards the status of international loans to carry out any "general settlement idea". The foregoing is pretty wild and no importance should be attached to it. I again emphasize the fact that Delacroix is a very adaptable fellow.

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

Document Berlin 644 - Weekly Statement of the Reichsbank for Week Ending 22nd April 1922.

Document Berlin 645 - The Recent Upward Trend in the Exchange Value of the German Mark.

Document Paris 651 - New Liabilities in Germany's commercial Balance Sheet in March 1922.

Document Berlin 655 - Devisenbeschaffungsstelle Report for the Month of April 1922.

Note of April 30, 1922, from Delegation in Berlin relating to transmission to "German Cabinet of a Bill for a forced Loan".

Faithfully yours,

Jan A. Bryan

JAL/BD
6 encls.

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

C O P Y.

Green.
Paris.
Dated May 12, 1922.
Rec'd 6:08 p.m.

Secretary of State,

Washington, D. C.

198 May 12, 7 p.m.

B 688. Reparation receipts since April 28th sale war material sixteen thousand four hundred and seventy seven pounds; British army costs seven hundred and ninety four thousand six eighty nine francs; French army costs Luxemburg coal two thousand six ninety seven pounds and interest, from reserve fund fifty two thousand six thirty French francs both Belgian subject arrangement with French treasury. Boyden.

HERRICK.

JS

May 15, 1922.

My dear Logie:

To my horror, on reading my letter of April 24, I find the following sentence at the foot of the first page - "It is not in my opinion absolutely essential that a considerable amount of the proceeds" etc. This was dictated, or I thought was dictated, without the word "not" because I believe it is essential that this should not be simply a reparation loan, but should be to enable Germany to get started on the road to recovery, and if I were the bankers, I wouldn't make any loan except it were under conditions which assured a sound application of the proceeds and a sound domestic economic policy.

I will be writing you more fully in reply to yours of April 28 and May 5 in a day or two. I am delighted to have all the up-to-date news they contain.

Faithfully yours,

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

BS.MSB.

COPY.

Green

Paris

Dated May 17, 1922.

Received 2:10 P. M.

Secretary of State,

Washington.

207 May 17, 5 P. M. B-690.

German Government paid Belgium, May 15th., 2,700,000
pounds sterling account Belgian Priority, equivalent about
50,407,887.60 gold marks. Subject payment approximately balance
37,000,000 gold marks Belgian-French agreement. Boyden.

HERRICK.

HPD.

C-797

May 19, 1922.

Dear Eliot:

The copies of the two cabled dated May 12 and 17, addressed to the Department of State, regarding Reparation payments have been received, and I thank you for the information they contain.

Yours sincerely,

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

GB.WM

JAMES A. LOGAN JR.

Paris, 18 rue de Tilsitt.
19 May, 1922.

ACKNOWLEDGED

JUN 23 1922

B. S.

PERSONAL & CONFIDENTIAL

My dear Ben,

My last letter to you was dated May 12th 1922.

Hermes, the German Finance Minister, arrived in Paris May 15th and is now engaged in "informal conferences with the various Delegates on the Commission". So far Hermes has confined his conversations to a discussion of the German Budget situation and the co-related German internal financial position. Neither he nor Bergmann as yet have entered into any discussion as to the question of the German external loan. Mr. Morgan is scheduled to arrive in Paris May 22nd and the first meeting of the Committee of Financiers will be held on May 23rd.

Hermes presented the enclosed memorandum, ^{Loose in file} designed to serve as a basis for his negotiations, to the Delegates individually. The memorandum was obviously prepared in some haste as there are certain errors in the figures given for both "revenue" and "expenditure". I don't attach importance to these errors as they practically offset each other in the credit and debit side. My general impression of Hermes' memorandum is as follows. So far as the "Revenue" is stated it is a conservative presentation erring slightly on the side of an underestimate. So far as the "Expenditure" is stated, the total is probably too conservative. The latter total is fair today but I am inclined to believe that in Germany's financial position essential and unforeseen expenditures will have to be met which will raise the total given.

The Hermes memorandum is disappointing as practically all "reforms" indicated result from the German "Compromis Fiscal" (In other words the plan of increased taxation agreed to by the various political parties in Germany), the nature and effect of which were known and fully appreciated some months past. The only real new item of interest is the revenue anticipated for 1922 from the forced internal loan of 40 milliard paper marks (see Number 3 of Hermes' memorandum herewith). It is obvious that notwithstanding what Hermes states, the "Reichsbank autonomy" contemplated by the proposed bill now before the Reichstag falls short of assuring any real curtailment or restriction in further German currency inflation. The value of deliveries in kind during the calendar year 1922 is estimated by Hermes at 51.5 milliard of paper marks which is approximately only one half of the sum estimated (and theoretically fixed by the Commission) for this item in the Commission's "ideal" letter of

March 21st 1922 (R.C. Annex 1353). My opinion is that the German estimate while differing widely from the theoretic figure nevertheless represents fairly accurately the value of the effective deliveries in kind that will be received and can be absorbed by the Allies during this calendar year. The Commission and the Governments can therefore quarrel with the Germans on the theoretical basis but have no quarrel on the practical result which is the same as they have all anticipated for some months past.

I am now preparing a table from the data included in the Hermes memorandum which I feel will give a clearer presentation of the German budget situation than is to be drawn from reading the memorandum. This will not be finished in time to go with this letter but will follow as soon as it has been typed. As a matter of fact even on the Hermes basis, by different methods of figuring and following an almost similar line of reasoning different results can be arrived at which I hope the table I am making will show.

The most important figure in my mind is the deficit of 12.926 milliards mentioned in the first paragraph, page 9 of the memorandum. If you will refer to bottom of page 8 of the attached memorandum you will find this figure is arrived at as follows:-

"Thus leaving a deficit of	95.869	"
"These 95.869 milliards include		
the following gold payments.. Total	82.943	"
	<u>12.926</u>	

It is therefore apparent that the German budget for the calendar year 1922 falls short in its paper mark expenditure cover by approximately 13 milliard paper marks and this on the basis of internal expenditures on account of deliveries in kind being only one half the figure originally fixed. In addition to this paper mark deficit there is also the deficit of 82.943 milliard paper marks on account of other Treaty charges, estimated on the basis of 70 p.m. equal 1 g.m., necessary for gold payments on account of

- a) Reparation cash payments,
- b) Clearing Office operations,
- c) Cost Allied Commissions.

Until this paper mark deficit is eliminated in one way or the other Germany is hardly in a sound position to float an external loan and I doubt if one would be forthcoming under such conditions. I am however hopeful that a satisfactory solution in this particular may be reached during the Hermes' negotiations.

For all the reasons stated in the foregoing, the Hermes report of contemplated German financial reform as set forth in the attached memorandum is not considered as satisfactory. Obviously it is far from

meeting either the requirements of the Commission's March 21st (R.C. Annex 1353) or April 13th (R.C. Annex 1390) letters to the German Government. Theoretically therefore, were the Germans not to change their present position before May 31st and were the Commission to hold to the basis of its letters just referred to, there is logically no other alternative on May 31st than for the Commission to carry out its threat of putting the May 5th 1921 Schedule of Payments into technical effect and simultaneously reporting the German Government in default. My own judgement is that the Germans will "come around" and that the Commission will be conservative, and that therefore the results of a reported default need not be anticipated. However it must be borne in mind that a report of default is a contingency but one which I consider to be remote.

The Commission's letter of March 21st (R.C. Annex 1353) and even its letter of April 13th (R.C. Annex 1390) are academically sound but from a practical and realisable aspect fantastic. I am reliably informed that the French Government some time past employed the services of the Solvay Institute and the services of some of their own well known economists to study the economic and financial consequences of a military occupation of the Ruhr. I am advised these reports clearly demonstrated the absurdity and futility of any such undertakings from an economic and financial point of view, and that these reports have made a deep impression on French Governmental opinion. The danger of course is the internal political aspect of dealing with a bamboozled public with a Parliamentary attitude reflecting such public opinion.

Bradbury has shown great tact and patience during the last months in his handling of Dubois. There was an unofficial meeting of the Commission on Wednesday which discussed the Hermes memorandum. While no definite decision was reached the impression left in the minds of all is about as I have indicated in the foregoing letter.

During the course of the foregoing unofficial meeting, Bradbury argued on the following general lines: That generally the Hermes report was unsatisfactory; that admittedly the position was difficult for the Commission in view of the public interpretation of the stand taken by the Commission in its letters of March 21st (R.C. Annex 1353) and April 13th (R.C. Annex 1390); that these letters had necessarily been partially framed to meet the exigencies of the political moment; that the requirements of the letters themselves were untenable and could not be maintained in the face of any critical sound economic or financial opinion in the present German financial position; that the Commission had left loop-holes in the letters which were specifically designed to allow further consideration of the whole question and that therefore it was incumbent upon the Commission to review the whole situation and to come to some basis of an agreement with the Germans which while effectively guaranteeing substantial reparation payments would nevertheless accord a business treatment to the reparation question.

Bradbury then referred to a personal conversation that he had just

had with Hermes and Bergmann in which he told them that in his opinion the Hermes memorandum of German financial reform was unsatisfactory to him in its present shape. The other Delegates, including the French, intimated having conveyed the same view to Hermes during their individual conversations with him. Today's French press reports indicate that the story of the unsatisfactory character of the Hermes memorandum has leaked out with the result that an incident of some importance has developed. Doubtless these reports have reached the American press. The leaking is obviously inspired by the French Government but I don't attach any other importance to it at the present time than as being a mean of exercising pressure on the German Government. Hermes is undoubtedly having a poor time in Paris. Being something of an optimist I am of the opinion that the German Government will "come around" and that therefore today's incident will soon be forgotten.

Bradbury at the conclusion of the unofficial meeting referred to the question of the autonomy of the Reichsbank and the necessity of stopping further German rot by curtailing further German monetary inflation. He said that on his own responsibility he had suggested to Hermes the wisdom of the German Government formally undertaking with the Commission for a complete suspension of any further increase of the German floating debt during the next year. In other words, Germany to stop forthwith the issue of short term notes and the printing of paper money. In Bradbury's opinion an undertaking of this character on the part of the German Government would almost immediately force the measures necessary to a complete balancing of Germany's internal budgetary situation and thus clear the ground upon which a sound foreign loan could be floated to cover German Government gold expenditures during the period of Germany's financial recuperation. He informed the Delegates that he had intimated the urgency of this measure to Hermes and that the latter was impressed and had agreed to take the matter up at once with the German Government and that a definite reply would be forthcoming within three or four days.

Dubois was obviously impressed with the seriousness of the situation and also with Bradbury's remarks which appeared to have the general approval of all the other Delegates. Dubois however while acquiescing in awaiting Hermes' reply did not definitely commit himself to the general Bradbury thesis. The meeting had to be called short as Dubois had an appointment with Poincaré on the result of which conversation I have as yet no information.

Too much importance should not be attached to any of the foregoing as the negotiations with the Germans are only in their preliminary stage. Many of the points presented in the foregoing letter will be cleared up in the press even before you receive this letter but I am sending this gossip as I believe it is necessary to an appreciation of the situation as it develops.

I have always felt and still continue to feel that the work

of the Committee of Financiers will be the best possible tonic for the present situation. I have no doubt that the German present attitude on the question of financial reform is largely dictated by a desire to retain "the cards in their hands" until "the show down" comes on the loan question. It is apparent that a somewhat similar attitude explains the present position of the Allies. I personally am very hopeful of the fruitfull results of the work of the Committee of Financiers and up to the present am not a bit pessimistic as to its outcome.

I enclose herewith Annex C.G. 228b "Autonomy of the Reichsbank". This has been prepared by Frère, the Chief of the Commission's Research Bureau. I read it very carefully and was much interested. I think you will find it worthwhile to read ~~it~~. It reviews the history of the Reichsbank from its start up to date. It has been very carefully prepared and in my mind is pretty sound. It brings up pretty clearly the problem of inflation in the German Government's present situation. Its conclusions in this particular differ somewhat from those which may be drawn from Bradbury's above quoted remarks at the unofficial meeting.

I also enclose I.S. 727 - Weekly Balance Sheet of the
Austro-Hungarian Bank.

I.S. 737 - Weekly Balance Sheet of the
Hungarian Bank.

Faithfully yours,

Jan A. L. Jr.

JAL/BD
4 encls.

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

JAMES A. LOGAN JR.

Paris, 18 rue de Tilsitt.
26 May, 1922.

ACKNOWLEDGED

JUN 23 1922

B. S.

PERSONAL & CONFIDENTIAL

My dear Ben,

My last letter to you was dated May 19th 1922.

Hermes, the German Finance Minister, arrived in Paris on May 15th and left Paris on his return to Berlin May 24th. Hermes confined his conversations to the German budget situation and the general German financial position. Bergmann, assisted by Melchior, is here in Paris working with the Committee of Financiers which had its first session Wednesday May 24th. Mr. Morgan arrived in Paris May 23rd and joined the Committee of Financiers. The Hermes negotiations "with the individual Delegates" have reached a successful conclusion so far as he and the Commission are concerned, and no incident or "crisis" on May 31st is therefore to be anticipated unless something unexpected occurs in Berlin.

I enclose herewith the following, viz:

Exhibit A - The Hermes proposal of May 19th 1922 (in its final form) concerning the measures to be taken by the German Government to curtail further German monetary inflation.

Exhibit B - The Hermes proposal of May 24th 1922 concerning the supervision of German Governmental financial operations by the Reparation Commission and the latter's agent, the Committee of Guarantees.

Exhibit C - The Hermes proposal of May 24th 1922 concerning measures to be taken by the German Government to prevent the exportation or "flight" of capital.

A - Hermes proposal of May 19th 1922 concerning the measures to be taken by the German Government to curtail further German monetary inflation.

This constitutes the most important German financial reform resulting from the Hermes negotiations. It is the first step of the German Government to put their financial house in order, and if faithfully applied will ultimately result in forcing an equilibrium in the German Government's budget. Particular attention is invited to the following quotation from the memorandum which is of special importance, viz:

Loose in file

"If notwithstanding these steps, the amount of the floating debt at the end of any such quarter still exceeds the normal maximum, the German Government will forthwith introduce, and take every step to secure the voting of, proposals for additional taxation to yield within the financial year then current (or if more than half the financial year has expired, within a period of six months) in an amount not less than the excess which has already arisen and any further excesses which may be estimated as likely to arise up to the end of that financial year".

The underlined portions of the foregoing quotation in fact obligates the responsibility of the German Government vis à vis the German Reichstag. Therefore if the German Government's proposal to the Reichstag is rejected the Government has no other alternative than to fall with the result that the responsibility is thus squarely transferred to the Reichstag. This commitment will necessarily lead to the adoption of laws by the Reichstag about September this year materially increasing German taxation. The conditions of this agreement will have a stabilizing effect on the mark, which is so necessary to the German position. It is held by some that in Germany's present position of general economic inflation such stabilizing effect will lead to liquidation with its incident period of business depression such as our country and other countries have just passed through. This purging is however felt to be necessary.

The foregoing while not entirely meeting the views originally held by the Commission relative to the "autonomy of the Reichsbank" is nevertheless a practical preventive of further increase in monetary inflation which is the evil of the present dependence of the Reichsbank on the Government.

B - Hermes proposal of May 24th 1922 concerning the supervision of German Governmental financial operations by the Reparation Commission and the latter's agent, the Committee of Guarantees.

This is an agreement of the German Government to the "supervision" contemplated by the Reparation Commission over financial operations. I use the word "supervision" rather than the French term "contrôle" as the French word "contrôle" is synonymous to the English word "supervision" and is not synonymous to the English word "control". The confusion in the use of the French and English word "control" has caused misunderstanding in the past and has been played on to give the impression that the Commission contemplated forcing the German Government to admit the institution of a system of control approaching that of the "Ottoman Debt", "Chinese Customs Administration", etc., with its attendant interference in actual administrative prerogatives of the Government. Such conclusion is erroneous as the supervision contemplated by the Commission only goes to the extent of the Commission through its Committee of Guarantees carrying out through inspectors a system of "verification" or "sounding the accuracy" of German Government statistical and other Governmental reports.

C - Hermes proposal of May 24th 1922 concerning measures to be taken by the German Government to prevent the exportation or "flight" of capital.

This memorandum starts in with a long explanation as to why the German Government was not able to present a plan for the "prohibition of export of capital" before April 30th, or the date prior to which such communication should have been received in accordance with the terms of the Reparation Commission's letter of March 21st. All of this explanation is immaterial and in consequence is omitted from the exhibit attached. The whole question of preventing the "flight" of capital is complicated. In the first place most of it has already "flown". In the second place and even during the war when an expensive system of mail and telegraph censorship, frontier inspection, etc., was enforced, the results were not wholly satisfactory. Without such guards at the doors, it is difficult - if not practically impossible - to prevent the continued flight and no one for an instant would or could advocate the reestablishment of such "guards" in time of peace. As a matter of fact the "flight of capital" is a symptom and is not the disease, resulting largely if not wholly from the instability in the value of the paper mark. The only effective measure is to cure the disease. I am inclined to believe that all on the Commission appreciate this and that there will be no difficulty in agreement on the 30th of June next to the acceptance of such partially satisfactory measures of prevention as the German Government may be able to formulate and present by that time.

Hermes has returned to Berlin with the three memoranda described above and with the informal approval of their contents by the Reparation Commission. In the natural course of events these three memoranda, together with the substantial portions of the Hermes' informal memorandum which I sent you in my letter of May 19, 1922, will be incorporated in an official communication from the German Government, and the latter will be communicated officially to the Reparation Commission on or about May 31st. The Reparation Commission in turn will acknowledge the receipt of the German communication; will accept it as a substantial compliance with the requirements of its letters of March 21, 1922 (Annex 1353) and April 13, 1922 (Annex 1390). This will have the result of maintaining "the Scheme of Payments for 1922" laid down as "provisional" on March 21st 1922 (see Annex 1352) during the year 1922, unless something unforeseen happens. It also has the result of relieving the Reparation Commission from the necessity of carrying out its threat of reverting to the May 5th 1921 Schedule of Payments, with the ipso facto consequence of immediately reporting Germany in default. In other words there will be no crisis on May 31st.

I attach hereto as Exhibit D a "Comparative Statement of Commonwealth Budget for the Fiscal Year 1922", together with an "Explanatory Note". This is the table which I referred to on page 2 of my letter to you of May 19th. Table A of the Comparative Statement is an analysis of the figures in the report submitted by the German Government to the Reparation

Commission on January 28th 1922 (see Annex 1247). Table B is an analysis of figures shown in the informal Hermes memorandum of about May 15th 1922, copy of which I sent you in my letter of May 19th. On page 2 of the "Explanatory Note" I give various hypotheses which can be drawn from figures in the Hermes memorandum. I prefer that these deductions be considered as contemplative possibilities and not as accurate and sound determinations. There are so many indeterminate factors that it is impossible to tabulate an accurate presentation of the position. A faithful compliance by the Germans of their engagement as per Exhibit A herewith will necessarily force economy in expenditures and increases in receipts through taxation. This leads to budgetary equilibrium. This latter result plus the proceeds of an external loan based on Germany's capacity will result in a material improvement of the exchange position. Altogether this should result in materially strengthening the German position and thus advancing the date for the "business settlement" of the reparation question.

I feel that both the Reparation Commission and Hermes have followed a business-like line of action during the negotiations which have just been concluded. The French particularly have shown every spirit of co-operation during these negotiations which clearly shows a desire on the part of Poincaré to arrive at a business settlement. This conduct of Poincaré requires courage in view of the internal uninstructed political view of the position. Unquestionably the conversation of the Committee of Financiers with some ready money in their "show cases" has been the tonic which has apparently carried the reparation question over the May 31st bump. I sincerely hope that the German Government after having apparently made this first step in the direction of a general house cleaning will carry their promises through effectively and that it will therefore be possible for the Committee of Financiers to find some practical means whereby a substantial loan based on sound business principles may be made forthcoming for Germany.

The questions covered in this letter will be resolved and reported by cable to America even before you receive this letter. I however believe you will find it useful to have some details of the negotiations which will probably not be cabled. Today's press reports from Berlin indicate that Hermes has encountered some criticism in Berlin on account of his Paris negotiations. I have not been able to verify this and cannot therefore pass any judgement on their importance or possible effect. It would be most regrettable if the German Government does not support Hermes.

I have your letter of May 15th and note your "horror" at the use of the word "not". Curiously enough I had not noticed this error in your letter of April 24th. My own opinion is in absolute accord with the "not" eliminated and it never occurred to me to even consider ~~ing~~ your "not" seriously as I know exactly how you would feel even before I received the letter.

If you have the time, Boyden and I would be awfully glad if you could let us have your views on the soundness of the German agreement as per Exhibit A. Taking everything into consideration and subject to your personal criticism I am pretty well pleased with it.

JAMES A. LOGAN JR.

Paris, 18 rue de Tilsitt.
2 June, 1922.

ACKNOWLEDGED

JUN 23 1922

B. S.

PERSONAL & CONFIDENTIAL

My dear Ben,

My last letter to you was dated May 26th 1922.

I enclose herewith the following, viz:

EXHIBIT A - Copy of letter from the German Chancellor to the Reparation Commission dated May 28th 1922. This letter is the result of the Hermes "unofficial" conversations with the Reparation Commission in Paris during the week commencing May 15th which was referred to in some detail in my letter to you of May 26th. Apparently the newspaper reports as to the question of the support or non-support of Hermes' Paris negotiations by the German Cabinet were inexact. It will be noted that this letter reproduces in official form the agreements reached by Hermes unofficially during his Paris conversations with the Delegates. Obviously the letter has been drafted in some haste with the result that some of the minor points satisfactorily covered in Hermes' Unofficial Memorandum (sent you as Exhibit A with my letter of May 19th) are not formally confirmed in the Chancellor's letter. This accounts for certain reserves which appear in the Commission's reply (see Exhibit B). They are relatively unimportant details but should be formally accepted.

EXHIBIT B - Copy of letter dated May 31st from the Reparation Commission to the German Chancellor, together with copy of its enclosure, i.e. Decision No. 1976a of the Reparation Commission of same date. The practical effect of this communication during the calendar year 1922, subject to the reserves indicated, is to continue the partial moratorium in accordance with the scheme of payments laid down in the Commission's letter of March 21st 1922 (see Annex 1353):

We all consider the foregoing solution of this phase of the general reparation question as most satisfactory. It has prevented a crisis which might have had serious results and tends to clear the path for the work of the Committee of Financiers. Unquestionably the fact that the Committee of Financiers was in session during this somewhat tense period has had everything to do with tiding over the May 31st bump.

The Committee of Financiers has been in session since May 24th. Their conversations have not been made public. They have gone into the situation in a most thorough and painstaking manner with the following

general results todate, viz:

FIRST - That under the terms of their reference by the Reparation Commission, which provide as follows:

"to consider and report to the Commission on the conditions under which the German Government, regard being had to its obligations under the Treaty of Versailles and in particular under the Schedule of Payments of May 5th 1921, could raise foreign loans to be applied to the redemption in part of the capital of the reparation debt, etc.."

see Reparation Commission Decision of April 4th 1922 (Annex 1359), it is impossible to raise foreign loans. This on the broad grounds that the maintenance of such charges as contemplated by the Treaty of Versailles and the Schedule of Payments of May 5th 1921, obviously totals an amount far exceeding Germany's capacity and therefore gives no sound basis upon which a loan can be floated.

SECOND - That a substantial loan, though amount not stated, can probably be floated if the total charges upon Germany under the Treaty be reduced to a figure within Germany's capacity.

The Committee of Financiers will shortly report to the Commission in the above sense and thus definitely dispose of the question originally proposed to the Committee by the Commission in the terms of reference above quoted. Simultaneously the Committee of Financiers will indicate their willingness to explore the field and report to the Commission in the sense indicated in "Second" above.

We surmise that the report of the Committee ~~in the sense indicated above~~ will be made public within the next few days. This will cause some considerable "flurry" in the European press and particularly in France. After the above report is submitted the more important members of the Committee of Financiers will in all probability leave Paris for a few days. They will be available however to reconvene and continue their work if the Commission determines to extend the scope of their terms of reference in the sense indicated above.

Our judgement is that this will only be a question of a few days' delay and that the Commission will extend their terms of reference substantially on the basis indicated. The re-examination of the question on the new basis should go far in "breaking the trail" leading to a business settlement of the reparation question. We feel optimistic as to

the final outcome as everything points to a desire on the part of Poincaré and the more intelligent French public opinion to reach a business settlement. For political reasons "following this trail" presents difficulties of moment for Poincaré and much public clamor is to be anticipated. We feel however that the intelligent element will be able to carry it through.

The suggestion is often made that a reduction of Germany's Treaty obligations is not possible unless at the same time the Interallied Debt is reduced. Practically the two matters have little connection. The reduction of the reparation obligation to an amount that Germany can pay is no loss to any country interested and does not affect in the slightest any country's ability to pay its portion of the Interallied Debt. On the contrary it will be of benefit, for Germany will not - in fact cannot - pay what she is capable of paying until the total burden is brought within her capacity. This question is understood to have come up, as would quite naturally be expected, during the deliberations of the Committee of Financiers. It will probably come up again in a little more acute form if the Committee of Financiers reconvenes under the forecasted extended terms of reference. Any attempt to connect a reduction of the Interallied Debt with the necessary reduction of Germany's Treaty obligations would prejudice the possible success of the German loan in the United States. Under such circumstances the loan would meet with the opposition of all persons who at present are opposed to a reduction of the Interallied Debt, and would probably make it impossible for the project to receive the favorable consideration of our Government which is an essential for the success of the loan in the United States.

Mr. Morgan is fully alive to the dangers of any effort on the part of his colleagues to connect up the Interallied Debt question with that of the reduction of the German bill, and has indicated quite forcibly to his colleagues that he will refrain from discussing or joining in any opinion whatsoever upon the Interallied Debt. In view of the firmness of Mr. Morgan's views and his potential financial position we feel fairly confident that the Interallied Debt question will not form part of any report submitted by the Committee of Financiers. It is felt however advisable to report to the Department as stories are bound to leak out in the press to the effect that the Committee of Financiers "is considering the Interallied Debt question", as such reports will be wholly unfounded in fact - at least so far as any American "consideration" is concerned.

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

Document Berlin 715 - Weekly Statement of the Reichsbank
for week ending 15th May 1922.

Document Paris 707 - German Exchange during week ending
May 13th.

J. A. L. Jr. TO GOVERNOR STRONG - PERSONAL & CONFIDENTIAL.

I.S. No. 751 - The German Mint in April 1922.
I.S. No. 758 - Weekly Balance Sheet of the Austro-Hungarian Bank on May 7, 1922.

Faithfully yours,

J. A. L. Jr.

JAL/BD
6 encls.

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

You may perhaps be interested to know that I have at last taken the step which I have so long contemplated of resigning from the Army. My resignation is effective on July 15th.

I enclose herewith as being of possible interest to you the following:

- Loose in file*
- Paris Document 681 - "The situation of German Banks of Issue as of March 1922"
 - Berlin Document 698 - "The German Payment Balance" an article which has appeared in the Manchester Guardian and written by Herr von Glasenapp, Vice-President of the Reichsbank.
 - Berlin Document 705 - Financial Position of the Reich for 10-day period ending 10 May 1922.
 - Paris Document 709 - Summary of "Draft Law Relating to the Obligatory Loan" (proposed forced loan).
 - I. S. 745 - Weekly Balance Sheet of the Austro-Hungarian Bank on April 23, 1922.
 - I. S. 749 - Weekly Balance Sheet of the Hungarian Bank on May 7, 1922.
 - I. S. 751 - German Monetary Metal Issue as of April 30th 1922.

Faithfully yours,

Jan A. L. Jr.

JAL/BD
11 encls.

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

JAMES A. LOGAN JR.

Paris, 18 rue de Tilsitt,
9 June, 1922.

ACKNOWLEDGED

JUN 23 1922

B. S.

PERSONAL & CONFIDENTIAL

My dear Ben,

My last letter to you was dated June 2nd 1922.

Loose in file

I am enclosing herewith a copy of the "First Draft" of the Minutes of the 294th Meeting of the Reparation Commission on June 6th and 7th 1922.

The question considered was the reply to be given to the enquiry of the Loan or Bankers Committee as to whether or not it was at liberty under the terms of its reference (see my letter April 7th) "to examine the possibilities of solutions involving modifications" in the financial arrangements prescribed in the Treaty of Versailles and in the Schedule of Payments of May 5th 1921.

The enclosed document first sets forth the terms of the enquiry of the Loan Committee to the Reparation Commission. In turn a statement by the French Delegate, Mr. Dubois, giving his argument opposing any extension of the original terms of reference (See Annex 1359 quoted my letter April 7th). Then the arguments of Sir John Bradbury, British Delegate, Marquis Salvaggio Raggi, Italian Delegate, and Mr. Delacroix, Belgian Delegate, advocating an affirmative answer to the enquiry of the Loan Committee. Then follows the proposed resolution of the British Delegate designed to extend the scope of enquiry of the Loan Committee. Subsequently Mr. Boyden's personal views, and finally the record of the vote carrying the resolution by a majority with the British, Belgian and Italian Delegates voting in favor and the French Delegate against.

This document is believed to be of special interest as portraying the constant preoccupation of the European Governments to there being a direct relationship between a solution of the "German Indemnity" and the "Interallied Debt" questions. It will be noted that Mr. Boyden fully protects our position in this particular in his statement in the attached document.

It is yet too early to draw any conclusion as to the effect of the French position on this question. Obviously Mr. Poincaré has bowed to the political exigencies of the moment. This was clearly to be anticipated from his speech in the French Chamber some few days ago - the text of which has already appeared in the American press.

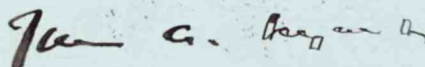
The question of the German loan is now in the hands of the Bankers under the terms of reference accorded the Committee by the Commission's majority decision. Unless the French attitude be unexpectedly changed the Bankers will hardly be able to consider any loan arrangement whatsoever. The general impression now is that the Loan Committee will complete its report to the Commission by the end of this week and then adjourn - perhaps subject to future call. The report will be for all practical purposes in the negative as to possibilities of any loan being made Germany under existing conditions. If our present impression as to the French attitude holds, the substance of the report of the Bankers will be public property within a few days and therefore in the American press even before this letter reaches you.

It is only possible to guess what the effects of the present "impasse", if it be maintained, will have on Germany. It will make the Hermes reforms concerning inflation and finance (see Exhibit A with my letter June 2nd) impossible of being accomplished. This may have a disastrous effect on the Wirth Government. A serious depreciation in the value of the German mark with its incident effects not only on the German internal economic situation but also on future reparation payment possibilities is to be anticipated.

The conference of the Bankers, notwithstanding the "impasse" apparently reached, unquestionably will have been of great benefit to the general situation. Their findings constitute an expression of the world's financial opinion that the figure of the present indemnity so far exceeds German capacity as to be fantastic and that the maintenance of this figure can only lead to German bankruptcy. The world's general opinion will undoubtedly follow the majority views of the Commission, backed by the Bankers, on this subject and this must have its ultimate effect on French Government opinion. The French are obviously embarrassed by the isolation of their position and particularly by the "desertion" of the Belgians. They may do a lot of talking with perhaps even some rattling of the saber, but ultimately however they must bow to the inevitable. It is however to be regretted that France which is so badly in need of money for reconstruction and other purposes has taken the position of squandering the very possibilities of securing substantial reparations from Germany. In our opinion every day that is lost in reaching a final settlement means a proportionate loss in the amount of reparations that Germany can pay, and this with all attendant general world's economic and financial disturbances.

Faithfully yours,

JAL/BD
1 encl.



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

APRIL 6 - JUNE 9

HAMMERM
BOND

Enclosures accompanying letter of April 6, 1922

I. English translation of Provisional Agreement of March 21, 1922

(later made permanent) - modifying schedule of payments for 1922 as follows: -

(a) Cash payments - 720million gold marks.

Payments made in 1922 prior to March 21 - 281,948,920 mks. 49 pfennigs

Balance due in 1922 438,051,079 mks. 51 "

to be paid as follows: -

April 15	18,051,079 mks. 51 pfennigs
May 15	50,000,000
June 15	50,000,000
July 15	50,000,000
Aug. 15	50,000,000
Sept. 15	50,000,000
October 15	50,000,000
Nov. 15	60,000,000
Dec. 15	60,000,000

(b) Payments in kind equivalent to 1,450 gold marks (insofar as called for) as follows: -

To France 900 g. mks.

To the other Allies 500 g. mks.

Payments in kind to be charged with costs of Armies of Occupation, and only the balance reckoned towards the reparation annuity. Difference between sums due in 1921 and 1922 and sums actually paid to remain an obligation of Germany, with interest at 5%.

II. Conditions precedent upon concessions granted in provisional agreement of March 21, 1922: -

- (a) Measures announced in German Government's note of January 28, 1922 to be applied.
- (b) Measures in program of January 26, 1922 to be applied before April 30, 1922.
- (c) Increased taxation in 1922 amounting to 60 milliards paper marks to be voted before May 31, 1922.
- (d) Supervision of above measures by Reparation Commission.
- (e) Reduction of expenditures by curtailing public services, subsidies, unnecessary public works, contributions, etc.

- (f) Budget deficits to be covered by internal loans other than Treasury Bills discounted by Reichsbank.
- (g) Prevention of migration of capital.
- (h) Autonomy of Reichsbank.
- (i) Preparation and publication of statistics.

Letter of April 7

Annex No. 1342, a b

I. Draft law relative to autonomy of Reichsbank.

Provides for administration of bank by Board of Directors appointed by agreement of President of Commonwealth, Reichstat, Board of Directors of Reichsbank, and Central Committee.

II. Annex No. 1347, a b

Report of Committee of Guarantees on I. Proposed change "does not mean a great deal." "No real autonomy is granted." Will not result in "stoppage of the present system of financing the Reich by way of discounted Treasury Bills."

Real financial reforms, in order of priority, must be

- (a) Equilibrium in the budget.
- (b) Cessation of further note issues until exchange reaches a certain level.
- (c) Payment of reparations.

III. Comments upon the "reform" of the Reichsbank from Vossische Zeitung, March 14, 1922.

The real cause of inflation is the budgetary deficit. Repeal of the law of August, 1914 would stop further note issue, but would simply force the Government to suspend payments or print its own notes. The proposed law will formally secure the "independence" of the bank, but will actually cause little change, as the conduct of the bank has always in fact been the province of the Bank Directorate. So long as the law of August 1914 is in force, the

Bank must continue its note-issuing policy.

IV. Annex No. 1358, a-g inclusive.

Agreement in regard to costs of Armies of Occupation:

Total payments to be made during year beginning

May 1, 1922 - 220,000,000 g. m., to be divided as follows:

Belgian francs 102,000,000

£'s 2,000,000

French francs 460,000,000

on the basis of the existing effective strength of the Armies.

V. Public debt of France - January 1, 1922.

Internal 242,987,151,000 paper francs

External 38,650,150,000 gold francs

VI. Annex No. 1354.

Credits granted to Austria by foreign governments (See VII).

VII. Memo of Sir William Goode regarding American attitude toward Austria, and the Austrian situation in general.

Credits granted to Austria

By Great Britain - £ 2,500,000, of which £500,000 is to repay earlier loan. To be repaid out of first loan obtained by Austria "without conditions."

By Czecho-Slovakia - 500,000,000 Cz. Kr. as follows:

Postponement of unpaid Austrian share of Inter-State Railway traffic clearing House	214,000,000 Kr.
To be spent in Czecho-Slovakia	<u>285,000,000</u>

Total 500,000,000 Kr.

By France - Proposed loan 55,000,000 French francs.

By Italy - To be available on June 4 - 70,000,000 lire

British loan and other interim credits probably to be used to stabilize foreign exchange market.

April 14

I. Exhibit A - Reply of German Government to Commission's letter of March 21. Rejection of conditions proposed by Commission as precedent to moratorium.

II. Exhibit B - Commission's reply.

III. "The Rise in Foreign Exchange and its Effect on Prices," by M. Quesnay, Head of Intelligence Office at Vienna.

During 1920, the Austrian crown was depreciating rapidly; in the first half of 1921, a temporary stabilization occurred. These two periods showed the usual characteristics - extraordinarily low prices and abnormal business activity, followed by rising prices continuing after stabilization, tending to reduce the disproportion between external and internal prices. But when the exchange collapsed again in the summer of 1921, with far more rapid depreciation of the crown, prices rose from the very beginning of the period of depreciation instead of lagging behind. This is attributed to a psychological element - the realization by manufacturers and traders that real profits must be based not on the difference between sale and cost prices, but on the difference between sale price and cost of replacement, and since the cost of replacement could not easily be estimated in the rapidly fluctuating Austrian currency, prices were fixed in gold currency, in harmony with world prices, leaving a margin just sufficient to induce the foreign importer to purchase. Another influence tending to increase prices was the abnormal domestic demand, resulting from the desire to invest savings in commodities. This rapid rise in prices caused great suffering. With such profits, the producer could afford to increase wages. This period seems now (March 8, 1922) to be approaching an end. The reopening of the crown market and the granting of foreign credits have resulted in a tendency toward stabilization, which has curtailed the export trade. Prices must therefore be reduced at once, which involves reduction of wages and of Governmental charges.

April 28

I. Impressions of the Genoa Conference.

Declaration of Russian Socialist Federative Soviet Republic on International Commercial Relations.

Plan for organization of mixed Russian-Foreign Societies to be formed jointly by the Soviet Government and foreign capitalists on a basis of equality.

II. Memo setting forth Germany's position toward Russia.

III. Resolutions of Financial Commission and the Committee of Experts: -

Freedom of banks from political pressure.

Cooperation among central banks of issue.

Ultimate establishment of gold standard.

Budget equilibrium by reduced expenditure and in some countries by external loans.

Determination of gold parity.

Recommendation for adoption of an International Monetary Convention, to be participated in by European countries and the United States, suggested basis for such a Convention, and recommendation for preliminary conference of central banks to be called by Bank of England.

Disapproval of interference with freedom of exchange market or violation of secrecy of bankers' relations with customers in effort to prevent flight of capital.

IV. Control of foreign currencies by Reichsbank.

Regulations as to licences, etc.

May 5, 1922

I. Text of Treaty of Rapallo.

II. Opinion of Legal Service of Reparation Commission that Treaty of Rapallo does not prejudice rights of Reparation Commission under Versailles Treaty.

III. Letter of Reparation Commission to German Government to the effect that Treaty of Rapallo must not interfere with execution of Treaty of Versailles.

IV. Annex 538/13 for January 1922 - Accounting Service Report.

Capital Debt Account Nov. 11/18 - Jan. 31/22

<u>Debits</u>	<u>Credits</u>	<u>Million g. mks.</u>
139,525 million g. mks.	Deliveries Nov. 11/18 to Apr. 30/21	5,079
	Receipts bet. May 1/21 and Jan. 31/22	20
	Further items to be credited: (Upper Silesia etc.)	-
	Balance of debt as now disclosed	134,426
139,525 million g.mks.		139,525

Annuity Account May 1/21 - Jan. 31/22

Bond interest accrued:		Payments:	
Series A	450	(a) Instalment under Article 5	1,000
Series B	475	(b) Nov. 15, 1921* subsequent instalments:	
Other debits for Armies of Occupation; Control Com-missions, etc. May 1/21 to Oct. 31/21	175	1. Excess on Customs Duties and 10-day payments	140
		2. Deliveries in kind and Rep. Recovery Act	408
			548

1,548 mill.
g. mks.

Total deliveries in kind and payments November 11, 1918 to January 31, 1922 - 6,647 million g. mks. (i. e., 5,079, 20, and 1,548 million g. mks. as above).

Liabilities of and Credits to Germany Under Schedule of Payments

May 1, 1921 - February 15, 1922

Summary

<u>Liabilities</u>	(000 g., m. omitted)	<u>Credits</u>	
1) 1st and 2nd Instalments Fixed Annuity due May 25/21	1,000,000	1) Receipts in Cash foreign Currency	1,170,958
2) 1st Instalment variable Annuity* due Nov. 15/21	300,143	2) Transfer from Administration Reserve Fund	506
3) 3rd Instalment Fixed Annuity due Jan. 15/22	500,000	3) Deliveries in kind and Rep. Recovery Act Repts.	407,574
4) 2nd Instalment variable Annuity due Feb. 15/22	275,277	4) Interest on payments before due date	129
		Total credits to Feb. 15/22	1,579,167
		Total Deficit in respect of period ** May 1/21 - Feb. 15/22	496,253
Total liabilities to Feb. 15, 1922	2,075,420		2,075,420

Digitized for FRASER
<http://fraser.stlouisfed.org/>
 Federal Reserve Bank of St. Louis
 *26% of exports and 26% of value of deliveries in kind.
 **Feb. 15 - Mar. 18 - payments have been made amounting to about 124 million g. mks.

Statement January 31/21 of 10-day payments

1. Under Article 7 of the Schedule of Payments

(000 g. m)

Due for October, November and December customs duties	45,430		Payments	
		November 18, 1921		8,688
		23, "		2,677
		December 15, "		5,730
		19, "		8,689
		22, "		5,999
		30, "		7,328
		January 6, 1922		5,602
		30, "		58
		Paid to Belgium's a/c in New York		44,771
		Bal. still to be paid Jan. 31/22		659
	45,430			45,430

2. Under Draft Protocol December 31, 1921

January 1-10, 1922	31,266	Jan. 9, 1922		
		Paid Customs Duties		6,094
		Paid Export Levy		25,172
	31,266			31,266

3. Under Cannes Decision (No. 1722)

January 11-20, 1922	31,000	Jan. 18-19/22		
		1st 10-day payment		30,958
January 21-31, 1922	31,000	Jan. 27-30/22		
		2nd 10 day payment		31,090
<u>Overpayment Jan. 31, 1922</u>	<u>48</u>			
	62,048			62,048

Above included in Summary Statement.

May 12

I. Revised reply of Reich to Reparation Commission dated May 9, moderating the attitude assumed in its letter of April 24.

II. Recent upward trend in the exchange value of the German mark

March 27	338.66	-	\$ rates in Berlin
April 27	281.64	-	" " "

Fluctuations in the exchange value of the mark are ascribed to "Stimmung" (a state of feeling on the part of buyers and sellers), which is influenced by (1) political factors and (2) condition in Germany itself. Among the political factors contributing to the recent rise in the mark are confidence in the Financial Sub-Committee, particularly Mr. Morgan, events at Genoa and altercations between the Allied Delegations at Genoa. More influential, however, are internal conditions, such as the change in the method of Reparation payments relieving the Government from the necessity of going into the foreign exchange market every 10 days, and the shortage of money (in spite of large note issues) resulting from the great advance in prices.

May 19

I. Memo of May 5 presented by Hermes - "Execution of measures announced in German note of January 28, 1922."

Revised Budget 1922-23

<u>Ordinary Budget</u> (General Administration)	Million p. mks.
Estimated Revenue (including forced loan estimates)	186,250
Estimated Expenditures	<u>123,650</u>
Estimated Surplus	62,600

Execution of Peace Treaty

In the Ordinary Budget	163,159
In the Extraordinary Budget	<u>63,310</u>
	226,469
Reductions due to recent decisions of R. C. etc.	<u>68,000</u>
Total	158,469

Surplus from Ordinary Budget (as above)	<u>62,600</u>
---	---------------

(1 g. m. = 70 p. m.)

Deficit	95,869
---------	--------

Reparation payments in gold included in deficit of 95,869 millions amount to 82,943 millions only.

The above estimates, however, do not include 22,552 million marks to cover general administration, railway and postal expenditures in the extraordinary budget. It is stated that a considerable portion of this sum will not be appropriated.

II. Details of proposed forced loan.

III. Autonomy of the Reichsbank - Annex C. G. 228b.

The Banking Law of 1875 placed the Reichsbank "under the supervision and control of the Empire." The new law deletes the words "and control." It transfers the directing powers of the Chancellor to the Board of Directors and requires the approval of the Board of Directors and the Central Committee (representing the shareholders) to appointments of the Chairman and Directors by the President of the Commonwealth.

The changes are more formal than actual, rather in the line of legally recognizing existing practices, and will have no effect upon inflation.

May 26, 1922

I. Exhibit A. - Hermes Proposal of May 19 (final form) in regard to monetary inflation.

Upon condition that a foreign loan is received the German Government agrees

(1) to consider the amount of the floating debt on March 31, 1922 as the normal maximum.

(2) to repay any future excess within three months without resorting to fiduciary inflation, and if, necessary, by additional taxation.

II. Exhibit B. - Hermes proposal of May 19 (final form).

In regard to supervision of German Governmental financial operations by the Reparation Commission. Supervision accepted.

III. Exhibit C. -

In regard to prevention of flight of capital - Agreement to take measures to prevent further flight of capital and to tax capital already exported.

IV. Exhibit D - German Budget 1922-23 (lg. m. = 45 p. m.)

Budget as submitted January 28, 1922 estimated deficit at 183,360 million p. m.

Budget as submitted May 15, 1922 by Hermes estimated net deficit at 12,920 million p. m. (1 g. m. = 70 p. m.)

This result is based upon the following assumptions:

(a) That the deficit of 3,110 million paper marks on Extraordinary Budget and 19,440 million p. m. on Commonwealth Undertakings Budget will be covered by internal loans in addition to projected forced loan of 40 million p. m.

(b) That by reducing deliveries in kind approximately one-half (to 51,500 million p. m.) the Treaty charge will be cut from 163,870 million p. m. to 95,860 million p. m., of which 82,940 millions will be covered by "projected external loan," having a deficit of 12,920 million p. m.

Col. Logan points out that upon the present schedule of the Reparation payments, without the forced internal loan of 40 million p. m., the deficit would be 238,410 million p. m., and with said loan, 198,410 mill. p. m.

V. German payment balance.

Article by von Glasenapp, reprinted from Manchester Guardian Commercial, in which the conclusion is drawn that Germany cannot possibly meet the Reparation payments as now assessed.

VI. Draft law - obligatory loan.

June 2

I. Formal letter of Reich embodying in general the Hermes proposals previously reported.

II. Reply of Reparation Commission confirming provisional decision of March 21, together with formal decision 1976 a.

III. German exchanges during second week of May 1922.

Great losses on security market; no desire for investment; shortage of money; difficulty of floating stock issues to increase capital.

June 9

Report of meeting of Reparation Commission on June 6 and 7, at which the Bankers' Committee was granted permission to examine any conditions

necessary for the raising of external loans by Germany, the discussion revealing the readiness of the European delegates to connect the Reparation problem with the question of inter-Allied indebtedness, Mr. Boyden, on the other hand, stating that he could see no connection between the two.

MER/GMH
Statistics Dept.

WILL

1
H210

JAMES A. LOGAN JR.

Paris, 18 rue de Tilsitt.
15 June, 1922.

ACKNOWLEDGED
JUL 14 1922
B. S.

PERSONAL & CONFIDENTIAL

My dear Ben,

My last letter to you was dated June 9th 1922.

I enclose herewith copy of the ^{Loose in file} findings of the Committee of Bankers dated June 10th 1922. Unquestionably this report has already been fully transmitted by cable in the public press - however it may be of interest to have an official copy.

We all feel that under the circumstances the Bankers have done a good job and that their effort has contributed to a solution of one fundamental problem. It was a responsibility with risks and disagreeable features which were obvious and there must have been some temptation to avoid it. We are pleased with the report of the Committee and particularly pleased that it was not left in purely negative form but stated the general reasons for the conclusions and added constructive suggestions and intimations. Our belief is that it marks a real stage in progress and that its opinions will be cumulatively useful.

To our mind, the main thing which has been accomplished is to bring out clearly to anyone who takes the trouble to think at all that the present policy is neither sensible nor business-like. It is plain enough now where the preponderance of world opinion lies and this preponderance will finally have its effect. We would have been glad to have the Delegates on the Commission bring out more clearly their own views and Mr. Boyden has urged this before now, but although the Commission do not express themselves directly, the loan incident has, nevertheless, demonstrated what the Delegates really do believe. No one can fail to draw from the majority vote extending the mandate of the Loan Committee the necessary implication that the majority desired suggestions as to possible changes in the reparation policy because they believed that such changes were necessary.

The Commission decided last week to publish its own Proces-Verbal (see First Draft of the Minutes of the 294th Meeting of the Reparation Commission of June 6th and 7th 1922 enclosed with my letter to you of June 9th 1922), containing the declarations made by the different Delegates at the time of this vote, but on June 12th they changed their minds so that, for the present at least, these declarations will not be published. We regret this but think it likely that the published discussions on the subject will either force the publication of these declarations or at least make more plain what they were.

We have been amused rather than annoyed at the comments of the

French papers. The two which struck us the most are the editorials in *Le Temps* which pointed out that this alleged loan maneuver was a boomerang for the Americans who took part in it in as much as it evidently led to the conclusion that the Interallied Debt must be reduced. In addition the French papers have been making an effort to distract the attention from their isolation on the reparation principle by the claim that their desire not to extend the mandate was based largely on the fact that they did not wish, under present conditions, to seem to be pressing the United States to reduce Interallied Debts. I feel confident that there will be some effort on the part of the French to propagandize our people in this particular. Obviously such maneuver has no foundation in fact as the French views on there being a direct relationship between the Indemnity and the Interallied Debt questions are just as firmly fixed and have been as openly expressed as in the case of Great Britain, Belgium and Italy.

The French papers have criticized Mr. Delacroix, the Belgian Delegate, for joining with the majority in the Commission and also joining in the Loan Committee's report. Some of the Belgian papers are saying some very severe things against him and also against the Belgian Premier Theunis who supports him. It is all purely political: "France supported Belgium at Genoa. Belgium ought to have supported France in the loan question. Belgium and France are Allies and if they do not speak and vote together, they will never get anything". In other words they evidently think that Delacroix instead of saying what he thought ought to have imitated Sergent and accepted the role of a political automaton. These attacks are naturally disagreeable to Delacroix and may lead to a substantial loss of prestige both for him and for Theunis. But making all allowances for this they must feel better satisfied than Sergent. I can't help thinking that Sergent must feel a distinct loss of self respect in contemplating his participation in the matter. I have no doubt in my own mind that our French friends will endeavor by every means in their power to force Belgium back into line with them so as to equally divide the Commission and thus prevent majority votes during the trying approaching months.

Now we come back to the May 31st decision. The Committee of Guarantees will go to Berlin June 19th to discuss with the German Government the details of the budget, details of their financial supervision, measures to be taken to prevent the evasion of capital and the necessity of imposing further taxes. I am going with them as an observer. The Wirth-Hermes Government will in all probability be less inclined and will find it less easy now that the loan is out of the question to give much, if any, satisfaction to the Committee. The majority of the Committee will be inclined to yield and take what they can get. The French will be inclined to insist partly on the impossible and partly on the useless.

Next comes the question of the continuance of German cash payments of about 50 million gold marks per month in addition to clearing office balances. I doubt if the Germans will be able to continue these payments more than two months and nothing would surprise us more than if they were able to continue them through the year even if they do not try to stop inflation.

In addition, the whole May 31st settlement is based on the assumption that a loan will be possible, and one of the conditions is that if the loan proves to be impossible, Germany shall make other propositions to the satisfaction of the Commission. This means all sorts of things, particularly increased taxes.

So in one way or the other there will probably be a recurrence of the "periods of crises" which have become part of our daily food and each and all of them seem to us to strengthen the majority in their previous opinions and bring out the weakness of the past policy and the weakness of the present policy which resulted in making the loan an impossibility. Just how far this will have to go before we make another constructive step is difficult to predict. It may be that France will feel compelled to try something strenuous though we do not think that the present Administration wants to try military measures. If there be no way to convince people of their futility except by trying them, there might even be an advantage in having them try them.

I am confidentially informed through most reliable sources that M. Millerand in a recent conversation with one of the Allied Ambassadors expressed the opinion to the effect that the present French position was untenable and that some basis must be shortly found as a means for reconvening the Bankers Committee. M. Poincaré will leave shortly for London where he is to have a conference with Mr. Lloyd George. M. Poincaré has accepted an interpellation of the Government's attitude on the reparation question and this will be heard by the Chamber on June 30th. It will be interesting to see what the French Government's attitude will be at this latter date and particularly after the Lloyd George conversation. It is worth watching as it should clear up a good deal of the present uncertainty.


I also enclose, for your information, copy of a letter which has just been forwarded by the Commission to the German Government concerning certain details connected with the Hermes Agreement. This letter is of interest as showing the enquiry to be carried out by the Committee of Guarantees during its approaching visit to Berlin.

Faithfully yours,

Jan A. L. Jr.

JAL/BD
2 encls.

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



C O P Y.

Green

Paris

Dated June 15, 1922.

Received 12:54 P.M.

CONFIDENTIAL.

Secretary of State,
Washington,

242 June 15, 4 P.M. B-704.

Miscellaneous reparation receipts since June 2. Dye stuffs \$41,399 account Belgian priority. England and France officially announce to commission payment received yesterday Belgium 500,000,000 and 140,000,000 gold marks respectively pursuant article 8 financial agreement March 11th. This announcement merely formal, most of English payment made long ago.

Details payment to France already cabled periodically as made.

Boyd.

HERRICK.

COPY.

Green
Paris

Dated June 15, 1922.

Received 12:51 PM

CONFIDENTIAL

Secretary of State,
Washington,

241 June 15, 3 P.M. B-703.

Germany announces payment Belgium June 15th ten million
Belgian ten million French francs 1,500,000 pounds sterling \$3,500,000
approximate value 50,196,604 gold marks, complying commission's decision
March 21st, our B-664. Boyden.

HERRICK

W. S. B.

JAMES A. LOGAN JR.

Paris, 18 rue de Tilsitt
17 June, 1922.

ACKNOWLEDGED

JUL 14 1922

B. S.

PERSONAL & CONFIDENTIAL

My dear Ben,

Loose in file

I enclose herewith the following additional documents concerning the "so-called" Autonomy of the Reichsbank, viz:

Annex C.G. 228 c

Annex C.G. 228 d

Annex C.G. 228 f

The foregoing are largely re-hashes of documents already sent you but in view of your special request for information on this subject I am sending them along. I also enclose the French text of a study prepared for the French Delegation on the Reparation Commission by the Bank of France on the same subject.

I am leaving Paris for Berlin June 20th. I expect to be in Berlin as observer with the Committee of Guarantees for about three weeks so you will not hear from me for some time. Basil is here in Paris and living with me at 7 rue Monsieur. It is nice to have him here. Come over and play with us. A lady friend of yours keeps asking for information as to your whereabouts.

Good luck to you.

Faithfully yours,

James A. Logan Jr.

JAL/BD
4 encls.

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

AUTONOMY OF REICHSBANK

Digest of memorandum prepared by Bank of France for the French Delegation on the Reparation Commission, enclosed with Col. Logan's letter of June 17, 1922.

* * * * *

The changes introduced by the Law of May 25, 1922, are of limited importance.

The Directorium is released from subjection to the Government, and is formally granted the powers of direction previously vested in the Chancellor, although in fact largely exercised by the Directorium. No change in the membership of the Directorium is made.

Nor is the Central Committee vested with any new power of importance, its additional functions being purely advisory. Its sole effective power lies, as previously, in its power of veto on operations in connection with the State Treasury, which are not in accord with law. But this power is useless unless supported by laws restraining note issue. The present lack of such regulation is the chief defect of the German monetary policy.

The Law of March 14, 1875, requiring that the Reichsbank circulation should be covered for at least one-third by coins, ingots or Reichskassenscheine, and for the remainder by bills running not more than three months and bearing two or three signatures, has been entirely nullified by the Law of August 4, 1914 and May 9, 1921. As a result of these two laws, Darlehnskassenscheine are considered part of the metallic cover of the Reichsbank circulation; the Reichsbank is relieved of the requirement to keep in legal money a cover equal to 1/3 of the note circulation, thus removing the limit upon note issue; and Treasury Bills, equally with commercial bills, are allowed as reserve for that part of the note circulation not covered by the metallic reserve.

It is this dilution of the traditional cover for the Reichsbank circulation which is responsible for the enormous inflation, and no monetary progress can be made until the advances of the Reichsbank to the State and the note circulation are limited. Moreover, the Reichsbank's right of emission should be made exclusive since the same objections apply to note issue by other institutions.

6797

GREEN
Paris
Dated June 3, 1922.
Recd. 10:04 a.m.

Secretary of State,

Washington, D. C.

220. June 3, 11 a.m.

B - 693. Miscellaneous reparation receipts since
May 18th postal orders balance 450 francs, Luxemburg coal
115,315 pounds, dyestuffs 5,345 dollars all Belgian subject
French-Belgian arrangement. Belgian receipts sufficient.
Reparation to France, see my B-654. Reparation payment not
yet officially announced. Boyden.

HERRICK

WSB

CONFIDENTIAL.

EM

GREEN

Paris
Dated June 17, 1922
Recd. 12:03 P.M.

Secretary of State,

Washington.

247, June 17, Noon. B-706. Miscellaneous reparation receipts since June 10, Luxemburg coal 132,726 pounds to Belgium. Payments reported our 703 confirmed. Boyden.

HERRICK

WSB

June 20, 1922.

Dear Elliot:

The copies of the two confidential cablegrams dated June 15, received by the Secretary of State from the American Embassy, Paris, regarding reparation payments, came safely to hand. I thank you for this information.

Yours sincerely,

Honorable Elliot Wadsworth,
Treasury Department,
Washington, D. C.

CONFIDENTIAL

June 23, 1922.

Dear Logie:

My last letter to you was dated April 21, and with shame I acknowledge how derelict I have been in my correspondence. But let me explain that I have been absent, I was unfortunately laid up for a time, and I have been tremendously busy at the bank. So much has happened since my last letter that I think I shall simply take yours up in order and comment upon the various matters that seem to justify a word.

Yours of April 7. I have been through the documents and let me only say that they give us just the information that we need in these various matters in order to keep posted on what is happening, and it is fine of you to send them along. Please do not be discouraged if my acknowledgments are sometimes delayed.

Yours of April 14. This has already been acknowledged.

At first my reaction as to Jack Morgan's selection was not altogether favorable, simply upon the general ground that, on the one hand, he would be acting in sort of a judicial capacity, but, on the other hand, he would have a very important personal interest in the results of the judgment because of his likelihood of being the issue house in this country. Offsetting that disadvantage, which is simply technical, was the very great advantage of his prestige, and of having at the meeting an able man who commanded more credit probably in this country than any other American.

In general, let me say that I am mighty glad that he went and I hope that you and your associates were satisfied with his performance. He is a splendid, straight-forward fellow, and no one can fail to understand his position because he never hesitates to state it frankly.

Yours of April 15. I was greatly interested in what you wrote about taxes in the third paragraph of your letter. It bears somewhat upon the question which I raised as to the industrial promoters of Germany, and generally what their scheme of financing their promotions was. I hope that you can get a line on that and let me know what you gather.

Yours of April 28. The enclosures were exceedingly interesting and most helpful. As to Russia; my friend Captain Masson who has been here in connection with the Mexican negotiations and who, as you know, is familiar with Russia and speaks the language, told me that in his opinion nothing could possibly stave off a very serious famine with an enormous loss of life during the next twelve months. He said there might be 10 million people or more dying from starvation and abject poverty. I was a good deal impressed with

June 23, 1922

what he said, and recently when in Washington asked Hoover what his reports indicated. He took an absolutely contrary view; said that they were going to have a fair crop; that the organization for relief now had about 180 Americans in the field with some 60,000 Russians working under them; that they were now feeding 7 or 8 millions and had a capacity to feed 10 or 12 millions; and that he thought the danger was past. This indicates the kind of reports about Russia which we get and how difficult it is to form an opinion. I only wish I knew more.

Yours of May 5. I must admit that the Rapallo Treaty came to me as a great shock. It indicated an underlying atmosphere of suspicion and distrust at Genoa, which did not indicate much hope of substantial results as to either Russia or Germany, and possibly this incident served to prepare our minds for the rather barren outcome.

Yours of May 12. Is it not a fact that the avoidance of a crisis May 31 was the great accomplishment in a negative way resulting from the appointment of the bankers committee to investigate foreign loans for Germany; and that the great accomplishment in a positive way was the indication so plainly made to Germany's existing creditors that people will only lend money to a solvent borrower. In a general way it may be said that people will not lend to a borrower who is facing impending insolvency - even though the security for the particular loan is adequate - because of the difficulties and embarrassments of collection out of the security; and that this principle applies more to nations than it does to corporations and individuals.

Yours of May 19. You give me a splendid account of the situation as to reparations. I shall not comment on it except in general remarks at the conclusion of this letter.

Yours of May 26. What you state under "a" constitutes the foundation for the one thing which you and I have commented upon in our correspondence. Is the present government - or any government which Germany is likely to have - strong enough to face down the industrial profiteer with any such program? Isn't that the question? Your remarks under "c" are wholly my own view that the so-called flight of capital can only be arrested and the return flight facilitated by measures to cure the disease which caused that result. This means reduced government expenditures, more tax revenues, a balanced budget, an improved position for the mark, and greater confidence in the stability of Germany.

Now as to Exhibit A upon which you ask some detailed comment. The judgment of that program must be based fundamentally upon the stability and influence of the present government and the extent to which the people will support it. There is no doubt whatever that direct taxation will go a long way towards making the program possible if the government is strong enough to enforce it, but on the other hand even direct taxation on the scale required presents the possibilities of further inflation, not through direct borrowings of the government from the Reichsbank but through the borrowings of tax payers, which would produce similar results, and a program of heavy direct taxes coupled with reasonably long time borrowings will only be successful if it is predicated upon the most rigorous reduction in government expenditures.

Theoretically, the capacity of people to pay taxes throughout a period of inflation is increased in proportion to the amount of the inflation. Actually, however, with inflation proceeding at such a rate as has been the case in Germany, the rate of taxation for the annual budget cannot overtake the inflation. Price increases, wage increases and depreciation in the external value of the mark will always be a lap or two ahead of the tax gatherer, and it has seemed to me that one of the most important functions of the Reparations Commission is to make its influence effective in the following directions among others:

1. To reduce unnecessary governmental and local expenditures by the federal government and states.
2. To insist upon taxation but not to a point where the budget is immediately placed in balance, but only after a period, because the complete balancing of budget in my opinion under present conditions is out of the question.
3. Assuming that the budget cannot be balanced by taxation, the Commission's attitude, it seems to me, should be to insure that the type of borrowing undertaken by the government minimizes inflation rather than increases it as heretofore.
4. The Commission should insist upon adequate accounting and statistical information as to the German economic and financial situation.
5. Foreign loans should be permitted or encouraged only under conditions which promote German recovery rather than defer the day of disaster.

I am without the data to enable me to comment upon the method of dealing with the floating debt set out in Exhibit A. Sound opinion could only be formed after examining in much greater detail than is possible here all of the influences which have led to the making of the tentative budget which you were good enough to send me.

I am frank to say that I am very skeptical of satisfactory results from a forced loan or a so-called capital tax or anything in that nature. Those who are obliged to subscribe on a large scale because of large means and whose fortunes are represented by fixed investments, plants, real estate, etc., can only meet the requirements of the forced loan or capital levy by bank borrowings. It gives the government the benefit of immediate cash and makes the tax payer or subscriber the borrower at the bank, but nevertheless results in borrowing and inflation, and under the German banking system the inflation would be directly represented. I fear in further issues of currency to a large extent.

As to foreign loans, there is much to be said on both sides, and there may be some points in connection with foreign borrowings which may not have occurred to you. In addition to the comments made above it should be borne in mind that a foreign loan imposes upon Germany an additional difficulty in making foreign payments of interest and sinking fund, which in the present state of affairs can only be compensated by corresponding reductions in the amount of payments under the Versailles Treaty. Further than that, in my

June 23, 1922

opinion, a foreign loan will be most effective in the long run in enabling Germany to restore production and exports and thereby increase Germany's capacity to pay foreign debts; and the making of a foreign loan simply for the purpose of maintaining a fixed schedule of reparation payments not only does not improve Germany's productive capacity, but in a measure impairs it by the addition of a large annual foreign payment.

The great advantage to Germany, and to any other country with a large discount on its currency, when borrowing in this market or in any market where there is a premium vis-a-vis the mark lies in the fact that the loan is given to Germany on a gold basis at a time when the mark is enormously depreciated, and to the extent in later years that the mark recovers in value, and progressively as the recovery takes place, a reduced number of marks are required for the service of the loan. To illustrate: with francs at 50 per cent. discount, if France borrows \$1 million in this market, it will produce, roughly, 10 million francs. Should the franc recover to par at the maturity of the loan it would only take 5 million francs to repay it. Of course, this point must be modified in cases where the intrinsic value of the depreciated currency is adjusted to the foreign value of the currency by a readjustment in the intrinsic value of the country's coinage.

In a general way I should say that Exhibit A indicates a desire of the German Government - probably under pressure - to bring about a reform in their fiscal affairs which may be impossible of accomplishment unless all the circumstances are favorable and the point upon which my doubt is the greatest is that having to do with public opinion in Germany and whether the present government is strong enough to carry out the ~~enlarged~~ tax program that seems to be required by this. You will notice that this is recognized in the first part of the exhibit by the stipulation that the effort cannot be carried through unless Germany obtains reasonable assistance by foreign credits. That is really the purpose of the whole plan as I see it here.

Certainly in a general way much progress has been made towards the enlightenment of public opinion, and beyond that what more could have been expected? It is hard to say.

Yours of June 19. The very interesting account contained in the documents covered by your letter throws much light on what transpired. Of course, much of it has appeared in the newspapers so far as results go, but procedure and discussions have been a closed book. There is only one point in connection with the discussion on which I would like to write you very frankly, and I hope you will take some opportunity to discuss it with Boyden. Please always bear in mind in connection with our correspondence that I never have or can express anything but purely my personal views for what they are worth. They are simply written as a friend to give you a little line on matters at home and further opinion which may aid in the important work you fellows are doing.

Some years ago I formed the opinion that ultimately in some form or other the ability of the Allied nations to repay our government would be directly dependent upon, and in some way associated with their ability to collect reparations from Germany. I have never changed that view - in fact

June 23, 1922.

in 1919 I discussed it at great length with some of our people who inclined to the same view - even to the extent of considering whether a generous attitude by this country expressed in the acceptance of some sort of a German obligation for a part of this debt, which might indeed result in a general readjustment all around among the debtors and creditors, might ~~be~~ be the most material contribution that we could make toward European recovery. This contemplated even the possibility that the German obligations would turn out to be bad, but would nevertheless be so distributed that the losses would be apportioned equitably among the creditors. It was in part grounded upon the belief that Germany's inability to meet the Versailles Treaty's obligations would result in military operations against Germany, occupation, etc. It was probably a visionary plan. At any rate it did not have a chance of success. Since then I had occasion to write to an English friend of mine in commenting upon what I thought was a very unsatisfactory proposal for dealing with the Allied debts - that, in my opinion, it would be most unfortunate for this country to be placed in the position, either voluntarily or involuntarily, of exacting the last dollar from its creditors, who had been its military Allies, at the same time that it might be insisting upon a reduction of the amount which France or any other creditor nation was seeking to collect from the enemy that caused so much destruction. I find exactly this view appearing in Sir John Bradbury's statement in the following words:

"These countries would incur a heavy responsibility at the bar of history if they were to display less consideration to their Ally than that Ally herself was prepared to show to the beaten enemy."

Now of course one's opinions change and they change ^{with} circumstances, and I have recently been coming more to the view, and quite decidedly so, which appears in the third paragraph on the third page of your letter of June 2. Public opinion in this country seems to be so definite in regard to the treatment of the Allied debt at the moment, and there is so much ignorance on the subject, that I do indeed see danger in the association of the two questions of reparations and Allied debts, although, as I have written you before, I have really felt that the sensible treatment of the situation required a general readjustment all around.

The fact seems to be that at the moment we have a very unsatisfactory basis of public opinion here upon which to expect any considerable results to come from any participation by representatives, either of our government or of business interests here, in deliberations having anything to do with the debts. My conviction is growing that time is the principal element to be relied upon to work out a solution. I am very firmly of the opinion that we should accept the conclusion of Congress that it desires a Commission to deal with the Allied debt matter entirely independent of any consideration of German reparations; that all of the nations debtor to this country should promptly undertake negotiations with that Commission, and the more prompt the better; and when those negotiations have resulted in enlightening the Commission as to the facts, its obvious duty will then be to make a report to Congress which will help to form a public opinion leading toward a more constructive treatment of the whole subject. There is a most important election in November with much fear expressed that there will be a great reduction in the present Administration majorities. Some go so far as to say that there will be a Democratic majority in the House. Under these conditions, responsible authorities, either in the Government or in Congress, cannot be expected to advocate very liberal proposals in the matter of the debts at a time when the tax burden is so heavy and the demands for all sorts of special legislation, including soldiers' compensation, are so insistent.

June 25, 1922.

The Commission appointed by the President is an excellent body, and with such men as Hughee, Mellon, Hoover, Smoot and Burton, I should think there is reasonable hope that the country as a whole will regard the report and recommendations from that Commission as authoritative and final.

This is all that I am able to write you just now, but in a few days I hope to send another letter on some other features of this matter, especially that having to do with the proposed conference of officers of the banks of issue in London, which is likely to be held in September, upon which I am anxious to have an expression of your views.

Please accept my warmest regards, and again many thanks for your fine letters and enclosures. Also give my best to Basil and to Eoyden.

Yours sincerely,

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

BS.MM

MD

Green

Paris

Dated June 24, 1922.

Recd. 11:23 a.m.

Secretary of State,

Washington, D. C.

256, June 24, 3 p.m.

B-708. Miscellaneous reparation receipts since June
17, 545 francs balance French postal receipts 1,926,973 francs
sale war materials both to Belgium. Boyden. June 24, 4 p.m.

HERRICK

VHL

JAMES A. LOGAN JR.

PERSONAL and CONFIDENTIAL

Berlin, June 26, 1922.

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

ACKNOWLEDGED
JUL 14 1922
B. S.

My dear Ben:-

I arrived in Berlin Wednesday and have been here since. The Committee of Guarantees is hard at work gathering together the detailed information upon which to base their report. Very little in a positive way has as yet been accomplished. The work is largely a rehash of the work we previously did here in Berlin. I think I could have written the main features of the report which the Committee will finally submit had I been given the job even before I left Paris. The detailed examination of the German position, however, makes a useful impression on the Germans, and the report when submitted to the Commission will be a useful document.

While there was some question for a few days as to whether or not the Forced Loan would be passed by the Reichstag before the latter's adjournment, this difficulty is apparently over, and we have every reason to believe that the Forced Loan will be a law within the next few days.

On Friday night the Ambassador was kind enough to invite Rathenau and me to dine with him. The dinner party included only the

Ambassador, Rathenau, and myself, and was primarily arranged through the kindness of the Ambassador to bring Rathenau and myself together. Rathenau was at his best. During the course of the dinner, Rathenau said that Stinnes was in Berlin for the purpose of discussing certain phases of reparation coal deliveries with the Committee of Guarantees, and that he wished to call him on the telephone and ask him around after dinner, which he did. Therefore, from about 10:30 in the evening, until about 1:30 in the morning, the party included the Ambassador, Rathenau, Stinnes, and myself. It was one of the most interesting evenings I have spent, and as Rathenau was assassinated the next morning at 11:00 o'clock, or only a very few hours after having left us, it had its tragic feature which has impressed our talk quite indelibly on my mind.

Before Stinnes' arrival, Rathenau referred at length to the difficulties of the Wirth Government and the recent unmistakable signs of falling off in morale of the German people. He said this falling off in morale, in particular, reflected itself in the opposition it created to meeting the treaty obligations. He said this made the situation extremely difficult and delicate for him personally. He rehashed much of the old stuff, laying particular emphasis on the position in which the German people as a whole were now forced to feel themselves placed in relation to the rest of the world. According to Rathenau, this feeling was one of being completely surrounded by enemies and creditors who regarded the German people as despicable and against whom they were, therefore, at liberty to accord no respect or any consideration for feelings. He said there was hardly a day which passed in his office without harsh complaints and criticisms being received from Nollet, the French Embassy,

Esthonia, Latvia, Lithuania, Poland, Roumania, Etc., concerning Germany's failure to live up to this or that part of the Treaty. He said the tone of all these communications was the pin-pricking variety which, if made public to the German people, could only result in fostering the growing German feeling of moral isolation, and thus stiffening the reactionary element's opposition to any Government desiring to carry out German treaty obligations. He said that he had been handling all of this correspondence personally so as to keep it from the public. He was quite insistent that either the Ambassador or myself visit his office where "he would willingly show us any single day's dossier on these matters so that we could take away an impression of his (Rathenau's) difficulties". Needless to say, neither of us accepted this invitation, though one could not help but feel that there was perhaps some foundation in fact in RATHENAU's presentation of this phase of his difficulties.

Rathenau then referred to the question of cash payments, stating that Germany had gold balances on hand with which to pay the July 15 reparation installment.

He said there was some additional balance which might be applicable to the August 15 installment, but this would probably be completely exhausted by August 15 in the purchase of Marks abroad necessary in preventing a disastrous fall in exchange. He intimated that the German Government's expenditures on this account within the last few weeks had been considerable. Rathenau admitted that it was Germany's first duty to rehabilitate its internal financial position, but emphasized that such rehabilitation was only possible after a readjustment of the indemnity bill to a figure within Germany's capacity, and by the help of an outside

loan to carry treaty charges for a few years. As to a figure "of capacity", he tentatively discussed and gave the impression of being in accord with a figure approaching 50 Milliard Gold Marks.

When Stinnes first arrived the latter stated his position concerning certain difficulties encountered by the Germans in delivering the complete program of coke and coking coal to the Allies on reparation account. This matter is now in course of adjustment, and it is, therefore, needless for me to go into the question in detail in this letter.

The conversation then changed to more general subjects. Rathenau asked Stinnes to explain how his (Stinnes') attitude vis a vis Germany and the Allies differed from Rathenau's. Stinnes made a pretty good impression. We prefaced Stinnes' remarks by intimating that we had heard from many sources, and that the impression abroad generally was that he (Stinnes) was the father of the "catastrophy policy" for German finances; that the industrials had no serious objection to further inflation in view of the profit they derived from the spread between internal and external prices on their exports; and that as a whole they were fearful of the "final day of economic reckoning" with its incident period of deflation, economic readjustments, etc., which all feel will follow automatically any stabilization of the Mark. Stinnes said this was not so, and that he "resented and regretted very much any such interpretation of his attitude", and that "anyone who suggested that he (Stinnes) wanted to see the Austriasation of Germany was a fool". He intimated that he was quite ready to take "his medicine" (referring to the period of deflation following stabilization) whenever a definite solution of the reparation question was reached. He said he was opposed to the German Government accepting any

ad interim loan or other temporary adjustment so long as Germany was forced to technically accept the maintenance of the present indemnity bill. He said that so long as the present bill was maintained, financial and economic disturbances and labor unrest was bound to continue, which no ad interim settlement could benefit or even have any palliative effect. He said that his public attacks on the Government were dictated from this sole motive and had recently been particularly emphasized as he had had reason to believe that the German Government was beginning to weaken before French pressure, and might be lead into accepting a compromise of this character. He said, however, that if the indemnity bill was for once fixed definitely at a figure within Germany's capacity, the internal German financial adjustments necessary would have his absolute and undivided support. If this goal were reached, a foreign loan floated on sound business premises would be necessary and, according to Stinnes, could and should be forthcoming to carry Germany's external financial obligations for a few years. Stinnes intimated that, subject to the condition he indicated, the floating of a loan of this character would receive the support of the German industrials.

Rathenau then asked Stinnes to explain to us his personal attacks on him (Rathenau). Stinnes replied that he (Stinnes) would not sign a paper "unless his signature could be discounted". Stinnes said that Rathenau by giving his approval to the Cannes and March 21, 1922, program of payments had done so with a full realization at the time that it was impossible for Germany to meet the payments involved. "Therefore, Rathenau's signature could not be discounted". Therefore, Stinnes attacked him. Rathenau, in replying, stated that, while agreeing with

Stinnes, he, nevertheless, maintained as he (Rathenau) was a member of the Government he was forced to reconcile the political exigencies of the situation with business considerations, and could not, therefore, have treated the question solely on Stinnes' "business principles", notwithstanding his personal inclinations to the latter treatment of the question. Stinnes again repeated that this was the only difference between Rathenau and himself.

Rathenau was obviously depressed during the whole evening, and as the Ambassador later so aptly expressed it: the situation had his (Rathenau's) "goat". In the light of his assassination the next day it was a curious coincidence that when referring to the falling off in morale of the German people, he specifically quoted incidents of recent assassinations and attempted assassinations of governmental officials as being indicative of this falling in morale. His sermon was to the general effect that the world's pin-pricking and fault-finding with Germany was similar, and would have a like result, to that "of a sane man taken and confined against his will in an insane asylum during a long period with the result that he gradually assimilates the mental taint of his associates". He said that the German people had now been for nearly four years (since the Armistice) in this "insane asylum", and that it was commencing to tell upon them. I am no sentimentalist and fully realized at the time the impression he was trying to make. I must, however, confess that while not swallowing this impression up to 100%, I was, nevertheless, some 50% impressed, which is a considerable temperamental reaction on my part these days.

I endeavored, and I hope with some effect, to leave Stinnes

with the impression that it was a short-sighted policy on his part to allow the world to rest under the impression that he was following a "catastrophy policy", and to attain this end was even willing to "pull down the pillars of the temple and let the roof fall on the heads of all". I intimated that his present tactics of prodding and teasing the French and the other Allies by continually discrediting Germany's financial position and forecasting complete and quick ruin had a back-kick which was inconsistent with his (Stinnes') desire to see a business settlement of the reparation question reached through the medium of a foreign loan. He might perhaps scare the Allies by these tactics into believing that their reparation equity was being dissipated, but these same tactics did little to reassure the various foreign fellows who have good money available to lend, and whose help, according to Stinnes, was so essential to the attainment of the definite settlement. I suggested that the fellow with money in his showcase to lend to Germany deserved and required serious consideration, as he would in all probability predicate his interest in a loan transaction on the internal German financial position being placed forthwith on a sound foundation. Obviously no such foundation existed today. It logically followed that if he (Stinnes) thought a foreign loan was the solution, he would do well to lend his considerable support by directly helping in the rehabilitation of the internal German economic and financial position.

The conversation at the Embassy was naturally of a privileged character, and therefore quite personal and confidential. It would, therefore, naturally be embarrassing for me if any outside reference were made to it.

The situation following Rathenau's murder is today nebulous.

FOR MR. STRONG - PERSONAL and CONFIDENTIAL

J. A. L. Jr.

Page 8

The German people at large resent the murder, with the result that there is considerable feeling against the extreme Right which should strengthen the hands of the Wirth Government. It is difficult to forecast what will happen, and whether or not the Wirth Government will use their present position to its full advantage. It now looks as if there will be a general strike for twenty four hours from tomorrow noon in protest of Rathenau's murder. I anticipate a good deal of "manifesting" but not much serious difficulty.

Faithfully yours,

Jan A. Lynch

CONFIDENTIAL

July 12, 1922.

Dear Logie:

In my last letter I advised you that I was proposing shortly to write you something of the suggested meeting of the representatives of the banks of issue. What I am now sending you is most confidential, although you may have received similar information through your own sources abroad.

It now seems that there will be about 20 institutions invited to send representatives (one each) to attend the conference in London, to be held probably early in October. There is some doubt still as to just which institutions will be invited. I advised you how inadvertently the news of my being tentatively sounded as to attending the meeting leaked out over here. Since then Governor Norman of the Bank of England has been here, as I think I wrote you, and we have been all over the proposed Agenda for the conference not only here at the bank but with the members of the Federal Reserve Board, ^{and} with the Secretary of the Treasury. I have also discussed the matter quite fully with the President and with Secretary Hoover, although I have not had opportunity to talk with Secretary Hughes about it.

I think the attitude in Washington can be summarized by stating that, officially, they are friendly towards private efforts by our people to assist in the restoration of better conditions in Europe, and that certainly one enterprise in which we have a deep interest and from which we could not stand aloof is that generally suggested in the proposed conference of laying out and recommending steps looking towards the restoration of the gold standard. We are the one gold standard country. We have the great bulk of the world's gold reserve, and for us to withhold assistance in this direction would seem to be wholly unjustified. On the

July 12, 1922.

Other hand, the conference has the possibilities of difficulty. No one can say before the ending just what line the discussion may take and what sort of reports may come from it. A representative from this bank attending such a meeting would have to be prepared to dissent from some part of the report. Then again there comes the difficulty of the Allied debt. In a general way, I gather that it will be proposed simply to state in unmistakable language that any efforts designed to facilitate or hasten a return to the gold standard in Europe will be futile unless there is first a definite adjustment or understanding or definition or statement of policy arrived at as to the inter-governmental debts, including reparations, but possibly not including Russia. This statement would undoubtedly be in general terms and not apply to any particular country but to all.

Frankly, I would not ^{hesitate to} join in a report of this character if predicated upon any such statement because it is futile to expect any progress towards a return to the gold standard by European countries until some sort of a definition of these debts is arranged, and until we know either by studies or by experience that the amount which they obligate themselves to pay periodically is within their means and will not throw them back upon a policy of excessive borrowings and consequent inflation of credit and currency.

So much that is discouraging has developed since Norman was here in May, that I am wondering whether anything may be accomplished by such a conference, except to repeat those oft repeated pious declarations such as emanated from Brussels and Genoa. From my personal point of view, I would gain more by making a trip through Europe and meeting these bankers privately than I could expect to gain by attending any such conference. But apparently much importance was attached to the proposal at Genoa, and I have numerous letters from friends in the banks of issue - such as Holland, Switzerland and elsewhere, - including the people in the Reichsbank - all expressing a very strong desire that I should attend.

July 12, 1922.

I have two or three other letters from you, including the one written after your meeting with Rathenau and Stinnes, which are intensely interesting and illuminating. I will reply to them in a day or two. We are awaiting with some interest news as to what happens on July 15. I presume Germany will pay a part and be granted some sort of moratorium as to further payments until things clear up a bit.

Again many thanks for your mighty interesting letters, and my best regards to Boyden, and the same to you and Basil.

Yours sincerely,

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

BS.MM

CONFIDENTIAL

July 14, 1922.

My dear Logie:

My last letter to you was dated July 12.

This is acknowledging yours of June 15, 17 and 26.

All of the documents enclosed have been read with interest and profit.

I am sorry that the Commission decided not to publish the details of the discussion, and really cannot understand why it was not done. You probably will agree with me that possibly the greatest obstacle existing to-day in the way of progress toward a solution of the many perplexities in national and international affairs is that simple old difficulty which we call ignorance. It is so much true in this country that I think more frankness with the public in all of these matters is the only way in which progress can be expected.

This comment is called forth by your rather optimistic views as to the effect upon the public of the publication of the statement of the Bankers Committee. Over here I think the announcement was considered sound, but no inferences such as you imply seem to have been drawn by the public generally.

As to Germany's capacity to pay and the French' necessity for collection of reparations - here indeed the densest ignorance exists. In making international payments a nation may be in the same position as an individual with a bank account. There are times when the nation's bank account becomes exhausted and international gold payments can no longer be made. This seems to be the case with Germany at the moment - but, of course, it might not have been the case had the German Government taken more vigorous steps to protect the value of the mark. I have a long and very confidential letter from Havenstein, with many exhibits designed to produce a convincing argument that Germany must have a moratorium. The

July 14, 1922

documents require too much study for me to have a very settled conclusion as yet; but my first impression is that it appears to be more an argument of confession and avoidance than a real justification.

As to the French's need for reparation collections. We all admit it and I think generally people have admitted it since the war closed; but there has undoubtedly been the impression that the attempt to collect more than Germany is able to pay, by the French Government, has been more a political than an economic question, and certainly much more sympathy would be felt for the French' attitude over here were the French Government squarely to adopt a program and announce it - such as you and I have frequently discussed in our correspondence, namely; ascertain what Germany can pay, take measures to increase her capacity to pay, and then make her pay all that she is able to pay.

Two or three times lately I have heard opinions confidently expressed - by private citizens to be sure - that there seems to be no doubt that the French policy was now squarely settled upon the economic destruction of Germany.

But as I recently wrote you, the solution of the problem cannot be found in an international loan made through an insolvent borrower where the sole protection of the lender is some ultimate recourse to collateral. Private investors don't like loans of that kind.

Yours of June 17 requires no comment, except again to say that the documents are most interesting.

Your letter of June 26 was certainly a wonderfully interesting account of an unusual experience. It gives me a good deal of light upon the various rumors that we have heard, and of course there is something pathetic in the whole circumstances of your meeting. I wish I might have had the privilege of being there with you.

Some one has described the contrast between the two principal men whom you met, very aptly by stating that one of them was in the position of having sold Germany short, while the other was long of Germany in declining market.

July 14, 1922

I think the reaction here growing out of Rathenau's assassination has been to increase sympathy with Germany in their difficulties, because of keen feeling of regret that one of the best men in the Government has been sacrificed when he was most needed; but nevertheless that he had undertaken an impossible task.

His American connections were of course of such importance that he was one German of standing ^{whose} position who was pretty well understood here.

I am most grateful to you for sending me the account.

Again with warmest regards to all of you, I am

Faithfully yours,

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

ES.MM

Green
Paris,
Dated July 17, 1922.
Recd. July 18, 2:05 a.m.

Reparations
VHL

Secretary of State,

Washington, D. C.

287, July 17, 5 p.m.

B-721. Germany announces payment Belgium account 50,000,000 gold marks due July 15th, 5,000,000 Belgian francs, 1,450,000 pounds sterling, 10,000,000 French francs, approximate value 32,000,000 gold marks. Balance due made up by following credits between November first and June 30th - Luxemburg coal 16,532,637 alliance dye stuffs 833,386 transfers reserve fund to schedule payments 526,211 French postal order 368. Total 17,892,602 gold marks. Logan.

HERRICK

WSB

INDUSTRIES OF RUSSIA.

To understand the present situation in regard to Russian industries, it is necessary to bear in mind the course of events during the past few years. The general nationalisation of industries was not originally one of the fundamental tenets of the revolution. The original idea seems to have been to nationalize - so far as nationalisation was to take place at all "only the heavy" or "basic" industries, such as coal and iron production, metallurgical enterprises, and transportation. Other industries and even in many instances the fundamental ones, were to be left under the management of the original owners, who could carry on just as before save for the fact that they would be operating as agents of the State.

Nationalisation as such was authorized by a decree of December 29, 1917, and began very modestly with the taking over shortly afterwards of the Putilov foundries.

It was soon discovered, however, that the original owners of many plants did not or could not function efficiently as agents of the State, and the only adequate method of "punishment" was the taking over, in one form or another, of direct control; and the growing number of cases in which such assumption of direct control became necessary, plus an increasing popular demand for the getting rid of the old bourgeoisie managers, led to a rapid development of a scheme for general nationalization. Thus partly through deliberate nationalization and partly as a necessary development of "punitive nationalization," there was, after the first beginnings, a very rapid growth of the system and by the spring of 1921 nearly all industries of any considerable importance had come under the direct control of the State.

Judged by results in the productivity of industry, the system has worked badly from the start, especially during 1918 and 1919, when the technical management of newly acquired establishments was placed in the hands of inexperienced "factory committees." Production reached its lowest ebb in 1919 and 1920 and the decline led to many demands and many schemes for introducing some new form of stimulant.

The movement towards reform finally crystallized in 1921 into the plan for the formation of "State Trusts" in all leading industries; and produced the decree of August 12, 1921, the essential features of which are

1. Large establishments in a particular branch of industry, which are well organized, conveniently situated for manufacture and trade, and well equipped technically, may be associated together into a special union or trust. Single establishments may also, in some cases, be permitted to operate under this law.

The confirmation of proposals by groups or by single establishments to operate under this law rests in the hands of the Praesidium of the Supreme Council of National Economy in agreement with the Praesidium of the Central Soviet of Trade Unions (1).

(1) Under the law the Supreme Council of National Economy has the right to determine which establishments may be united into a trust. Practically, the trusts which have thus far been formed have been organized either through the agency of the various former central administrative bodies which controlled industry or through similar local bodies in the various provinces or districts; with practically no interference on the part of the Supreme Council.

2. The administrative body (Directors) of a trust are appointed by the Praesidium (the nine directors) of the Supreme Council of National Economy, on recommendation of the Central Administration of the corresponding industry and the Central Committee of the corresponding Trade Union (2).

(2) In practice, thus far, the directors of a trust have been appointed by the Supreme Council of National Economy itself for trusts whose headquarters are in Moscow or in the chief cities of the provinces and by the Supreme Council of National Economy acting through its established subordinate organs, in the lesser communities. The Directorates thus far appointed consist of (1) members recommended by the professional union of workers in the corresponding industry or by its central council; (2) members appointed by the Communist Party; and (3) specialists. This last group in some cases includes former factory owners, but in general they are not made members of the Directorate of the particular factory which they formerly owned but of another manufacturing the same line of goods.

3. The directorate of the trust will take over the control of all the associated establishments and their equipment, stocks, fuel, raw material, etc.

4. "The amount of the production of a trust is to be transmitted into the general State fund, the expenses of production being deducted." (3).

(3) The exact legal position of the trusts in regard to property rights is admittedly hazy. In

practice, the trusts may not sell buildings, machinery or other equipment. On the other hand they have control of the sale of their products. The State, however, is regarded as owner of the net revenues, which must be turned into the general fund.

5. The administration of the trust shall prepare a general plan of production (operations) with all essential calculations of expenses, materials needed, etc.
6. In order that the factories of the trust may be provided with needed currency, food, fuel, raw materials, etc., the State will advance special funds to the trust on security of a share in the production. The Trust is empowered to accumulate such stocks of food, fuel, raw materials, etc., as may be necessary for the carrying on of its operations (1).
 - (1) In regard to the supply of raw materials, etc., the trusts thus far established may be divided into two groups: some of which have full control of purchase of materials, etc., and procure them directly by independent negotiations; and others which are still supplied partially by the State through the Central Administration of Supply. Those purchasing independently pay the ruling market prices; those supplied by the State pay the official fixed prices, which are usually lower than the rates in the free market.
7. The administration of the trust, under special agreements between the Superior Soviet of National Economy and the People's Commissariat of Foreign Trade, may contract abroad, against payments either in cash or in a portion of its products, for the purchase of such implements, machinery, materials, fuel, clothing, etc., as may be urgently required for the maintenance or improvement of the technical side of its operations.
8. The administration of the Trust shall work out a plan in detail, in agreement with the Trade Unions and Sections of Labor, in the corresponding industry, concerning the hiring and discharging of labor, the conditions of work and the rates of wages. Wages must in no case be lower than those established by the Union for the corresponding industry.
9. The directorate of a Trust will operate under the
 - (1) control of the corresponding superior

authorities and is responsible for the carrying out of the plan of production, the quality of the goods produced, the security of stocks and the general conduct of the business. It is responsible not only to the administrative authorities, but also in the courts of justice.

- (1) The "control" here referred to does not, in practice at least, mean control of the operations of the Trust, except in so far as the law contemplates severe punishments for carelessness or lack of energy in carrying on the work. The principal form of "control" consists in the participation in preparing a plan of production, the nomination of directors (as in 2 above) and the right of revision of plans through the respective Trade Union Committees.

Under this law the first two trusts (the Flax Trust and the Northern Lumber Trust) were formed within the first month. Since then the growth has been rapid and by April, 1922, there were no less than sixty in the larger industries (in addition to various unimportant ones authorized by local councils of National Economy), as follows:

	<u>Number of trusts</u>	<u>Number of factories</u>	<u>Number of workmen</u>
Metallurgy	7	57	125,000
Electro-technical	3	21	11,000
Textiles	24	249	253,000
Chemical	6	34	13,000
Mining	5	11	13,000
Silicates	3	33	16,000
Remanufacture of timber & lumber	6	226	13,000
Food products	3	262	18,000
Paper	2	9	12,000
Coal	1	87	8,000
	<u>60</u>	<u>989</u>	<u>482,000</u>

At first the new system gave considerable promise of success. The partial freeing of industrial enterprise from State control, giving it greater autonomy in carrying on its operations, acted as a stimulant; freedom of purchase of materials, etc., brought out from their hiding places considerable quantities of raw materials and previously manufactured stocks; wages, under comparatively free negotiation between the trusts and the unions, rose rapidly and roused labor to an increased productivity.

The improvement is clearly noticeable in the increased output of important industries for which data is obtainable, as illustrated in the following table:

Monthly production, in 1,000 poods.

	: Before the Organization		: Since the organization	
	: of the trusts		: of the trusts	
	: Jan.-April	: May-Aug.	: Sept.-Dec.	: Jan.-Apr.
	: 1921	: 1921	: 1921	: 1922
Donetz Coal	: 29,100	: 15,800	: 39,850	: 38,750
Pig Iron	: 633	: 361	: 581	: 892
Cotton Yarn	: 111	: 41	: 119	: 249
Woolen Yarn	: 49	: 17	: 42	: 56
Linen Yarn	: 69	: 10	: 33	: 99
Baku Oil	: 13,000	: 12,800	: 13,300	: 15,200

If published statements - official, semi-official - and private rumor, however are to be believed, this appearance of relative prosperity is illusive. Production has been increased; but except in regard to the extractive industries, it has been largely through the utilisation of old stocks of material which, it is stated, showed signs of exhaustion early in the spring; and, what is more important still, the progress of production has been made, not on the basis of ordinary business estimates of the demands of the market, but in accordance with "plans" prepared under the "control", direct or indirect, of the central political authorities. Production has continued, but sales at the prices made necessary by the fall in value of the ruble, the increase in wages, and, above all, by the various "contributions" required by the State, have declined so that even as early in January there began to appear in such publications as the official Zhissn and the semi-official Izvestia and Pravda predictions of renewed disaster. According to such reports, the trust warehouses are blocked with unsalable goods, and even the State Bank, which has been obliged to accept goods in place of cash in repayment of advances, has on its hands large stocks for which there is no market.

In the many conferences and discussions on the subject since the first of the year two definite opinions have emerged as to the causes, and, hence, the remedies to be applied, the opinions being undoubtedly colored by purely political considerations as to whether the New Economic Policy is justifiable or not. One party puts the blame on the lack of purchasing capacity of the population. They point out, for example, that the total available sum in the hands of the peasants (the most important purchasing public) does not exceed 200,000,000 rubles gold, while the production, even in 1921, of such factories as must depend mostly on the peasants for their market, reached at least double that value. Contributing causes are numerous, such as

1. Lack of circulating capital. Various statements, varying from 260,000,000 to 400,000,000 rubles, gold, have been made as to the amount required. The State bank, one of the objects of whose foundation was to supply this need, has been able to advance only a small fraction of this amount.

2. The enormous rise in prices, still further reducing the capacity of the market to purchase.

For example, taking the prices of February 1, 1922, as 100, the wholesale prices of the following trusts had risen by May 15th so the following:

Metal wares	896
Chemicals	754
Textiles	833
Leather goods	334
Rubber goods	665
Sweets and Tobacco	794

Such figures as are available indicate a still further increase since May.

3. The gratuitous supplies which, some, at least, of the trusts are obliged to furnish to some of the government departments, especially the Commissariat of War. It is reported, for example, that the Leather Trust is required to turn over no less than 60 per cent of its production in this manner.
4. The failure of the Government Departments to make prompt payment for such goods as they "purchase" from the trusts. The State is reported to have been in arrears to the Tobacco Trust on May 1st, 120 milliards of rubles.
5. The enormous rise in wages, from an average of 2,405,000 rubles per month in January, 1922, to 25,300,000 in May. Wages are said to reach an average of from 40 to 50 per cent of the value of the product. In May, it is reported of the Paper Trust, wages constituted 70 per cent of the cost of production.
6. Burdensome taxes and contributions: The Textile Trust claims that 20 per cent. of cost of production is State Tax; 12 per cent. is "contribution" for public instruction, etc., and another 12 per cent. for medical help, etc.

Frequent mention is also made of the limitation of markets, through faulty transportation facilities and the difficulties of production through lack of raw materials and fuel.

This first party is obviously in favor of greater freedom in industry. The second party puts the chief blame for the situation on the disorganization of transportation and trading facilities and recommends improved machinery for state control, though they would have it combined with greater freedom of private retail trade.

The discussions have thus far borne but little fruit, but they do at least emphasize a general recognition of the unsatisfactoriness of the present system. One step has been taken in a new policy which is claimed by some to be a further step towards the restoration of the capitalistic system in industry. It hastens a movement which had already been initiated voluntarily by providing for the compulsory combination of trusts engaged in one line of industry into "syndicates" having the same economic aims as large capitalistic combinations - regulation of prices, more economical distribution of products, increased economy through the joint purchase of raw materials, etc. Whether this will prove to be a step towards greater freedom or towards a further development of state socialism will depend not so much on the letter of the law as in the spirit in which it will be administered.

A conflict has developed between the Supreme Council of National Economy and the syndicates on the degree of State control which is to be permitted. The obligatory feature of the law seems to have been a move on the part of the central authorities to get control of a movement which had started voluntarily as early as February, at which time a textile syndicate (followed by several others) was formed. According to recent reports published in the Herald of Industry and Trade and in the Zhisn, the conflict between the Supreme Council of National Economy and the representatives of the syndicates is a most "obstinate" one, the former seeking to strengthen its hold by regulation in detail of the operations of the syndicates, while the latter protest energetically against "constraints of their autonomy." Still more recent is the suggestion that all the syndicates be united into a single syndicate of syndicates, a move which has apparently been initiated by the central authorities for the purpose of concentrating their efforts at control. It is too early, yet, to make any guess as to the outcome.

GREEN

Paris (via Naval Radio)
Dated July 26, 1922,
Recd. 27th, 9:45 a.m.

Secretary of State,

Washington.

300, July 26, 3 p.m. B-726.

Miscellaneous reparation receipts July 8 to 22, dyestuffs \$4,544;
Luxemburg coal 150,214 pounds sterling credit Belgium proceeds British
reparation recovery act month June 538,000 pounds sterling retained by
British under March 11th agreement applied army costs since May 1st,
1921. Logan.

WHITEHOUSE

HPD

UNRECORDED

AUG 2 1922

JAMES A. LOGAN JR.

Paris, 18 rue de Tilsitt.
28 July, 1922.

PERSONAL & CONFIDENTIAL

My dear Ben,

The Committee of Guarantees after a month's stay in Berlin returned to Paris on the 19th instant. I remained with the Committee in Berlin until July 14th when I returned to Paris. Assuming the policy of the Department to be that subsequently outlined by it, I used Mr. Boyden's departure for America and the consequent need for my presence in Paris as a logical excuse for quitting the Committee before any final reports involving possible commitments were drafted.

The situation in Germany after the "check" to the Conference of Bankers on the Foreign Loan question developed almost exactly as we had anticipated.

Loose in file

I enclose herewith as Exhibit A copy of a memorandum on the German budget position as it appeared on July 3rd 1922. This memorandum is only of value as illustrating certain phases of the German position described in this letter, for due to fluctuation between gold and paper mark values essential changes in the figures would result if an accurate forecast were attempted at any other date. It will be noted from the examination of this memorandum that the very optimistic results forecasted by the German Finance Minister Hermes when presenting his financial reform measures to the Reparation Commission last May (see in this connection my letter to you of May 19th 1922) have largely vanished. This was to be expected and indeed was more or less anticipated by Hermes who based his whole scheme of financial reform on the ability of the German Government to obtain a foreign loan as cover for Treaty charges. The increase in the expenditures incident to the fall in exchange, plus the credits already applied to the "Execution of the Treaty Budget" during the past first quarter of the German fiscal year 1922 have wiped out the anticipated surplus from the Ordinary Budget and, in addition, have largely eaten into the credits to be derived from the Forced Loan.

The final report of the Committee of Guarantees on the German budgetary situation, which will be forwarded shortly, when carefully considered and after elimination of phraseology of political coloring will boil down into showing:

- a) Substantial agreement with the German figure of estimated receipts during its current Fiscal year;

Attention is drawn to the obvious fact that any augmentation of receipts through increased taxation by legislative action at this time would hardly relieve the present budgetary situation. Past experience has demonstrated that the actual turn in of cash under new schemes of taxation only follows

the law after many months have elapsed and, in general, the more radical the scheme of taxation, the longer is the delay in actually gathering the money into the cash drawer.

b) Substantial agreement with the German figure of expenditures;

There will be some criticism of certain items of expenditures on the ground of extravagance and unnecessary capital charges but the aggregate of such items will not exceed 5 % of the total budgetary figure of expenditures. In other words, even if it were possible at this time to eliminate the five per cent criticisable, the resulting saving would be of negligible importance when compared with the total figure of deficit in the "Execution of the Treaty Budget". It seems pertinent to point out that the budget figures under study by the Committee of Guarantees during the Berlin visit had already been enacted into law by the German Reichstag. Therefore any changes or modifications would require Reichstag action with its attendant practical political difficulties. This situation which made the position of the Committee of Guarantees somewhat anomalous is to be corrected in the future by the "supervision" measures set forth in Exhibit B herewith.

From the foregoing, and if the present reparation policy is continued, it is obvious that the German Government must continue its present policy of practically unlimited monetary inflation irrespective of its consequent financial, economic and even social effects. I am no alarmist but I now feel more inquietude over the social factor than I have at any time in the past. Up until recently labor in Germany had not appreciated the results and possibilities attending the spread between internal and external prices brought about by weakening exchange. The industrial always appreciated this situation and had used it to his advantage. Labor, within the last few months, has come to a more complete understanding of this situation and are taking advantage of it at frequent intervals by demands for increased wages. Such demands are of course not unjustified, but, nevertheless, their frequency is bound to have a disturbing social effect, all of which results in adding "momentum to the snow ball rolling down the hill". Another curious phenomenon is that of the "flight from the mark". Few have confidence in the value of the mark, every one who gets marks wishes to dispose of them without delay. In certain cases they are converted into sound values but more often than not they are unproductively utilized. The turnover in the great German banks today is actually "kolossal". Bank Staffs and facilities have been materially increased so as to handle the rapidly circulating mark. There is much new construction going on all over Germany, brought about by this same phenomenon - a portion of which may be based on sound economic premises, but the larger portion is of very questionable economic value. All of this obviously tends to social unrest.

The obvious relief to be accorded in the present German position is a complete and immediate moratorium for Treaty charges with the hope that it is not now too late to stop the continued weakening of the mark; that Germany makes an honest effort to at once slow up monetary inflation, and proceeds forthwith to placing her financial house in order. Whether or not Germany can now balance her internal budgetary position (under complete

Treaty charges moratorium) or whether this goal can only be reached with some outside aid, is open to serious question. It is equally obvious that if France and Belgium are to receive any substantial sums of money on account of reparation, the only source is through the medium of a foreign loan to Germany. It logically follows that if a foreign loan is the solution, the fellow with money "in his show case" to lend has the determining decision and his decision will be based on the security Germany has to offer. The present allied reparation policy is dissipating Germany's security. The cumulative effect of such a policy is thoroughly appreciated by potential lenders. The possible consequences of this phase are gradually "coming home" to the Allies.

Loose in file

Enclosed herewith as Exhibit B is copy of the letter from the Committee of Guarantees to the Chancellor of the Commonwealth dated July 18th, concerning "the supervision to be exercised by the Committee of Guarantees; on the prevention of flight of capital and on statistics to be compiled by the German Government" and the Chancellor's reply to the same dated July 21st 1922. Considerable differences developed at Berlin between the British and French Delegates as to the extent of "supervision" or "contrôle" to be exercised over German fiscal affairs. It was apparent that both were acting under divergent instructions. The result was a compromise of the French and British ideas. The question as to "the flight of capital" was disposed of without particular difficulties. The adopted measures are not unreasonable but from a practical point of view "the flight" will continue just so long as the value of the paper mark depreciates. The "statistical data" which has been asked for and which the Germans have agreed to furnish will serve a most useful purpose.

The "supervision" measures which have been forced on the Germans are technically within the Committee's powers but are nevertheless cordially resented by German opinion. In drafting the plan of "supervision", the endeavor of the majority was to keep away from the assumption of administrative responsibility. There was some discussion with the Frenchman on this point but the majority views were maintained. I personally feel that even this modest scheme of "supervision" is unsound and in view of the majority views I doubt if it will be ever effectively applied. All Delegates recognize that a foreign loan is necessary for Germany if the latter is to make any immediate reparation payments. If they consider a foreign loan as the necessary solution, they are following a questionable policy by exaggerating the supervision phase. This only shakes the confidence of lenders in the German security offered for possible loans. In other words, it might be difficult to get a lender to advance money if told that it was necessary to keep three or four policemen with the borrower so as to prevent his running away.

Upon my return from Berlin I called on M. Dubois, the French President of the Reparation Commission, a personal friend of mine. At his request I gave him my personal impressions of the German situation after visiting Berlin. I said my views were purely personal and given as friend to friend. I was surprised to find that his views which he in turn prefaced as "personal" coincided almost entirely with my own. He said that that morning he had been in conference with M. Poincaré and M. de Lasteyrie. He said that de Lasteyrie was "disturbed and excited" by the French financial

position and insistent that an early agreement be reached for the settlement of the reparation question so that the Bankers Conference could be resumed in the hope that some money would be shortly forthcoming for France. De Lasteyrie pointed out that France was rapidly reaching the end of its financial tether; that important receipts accruing through delayed collections of excess war profit taxes and liquidation of French and American Army stocks, were about exhausted and that if money was not forthcoming, it would be necessary to shortly present a program of taxation to Parliament staggering to French public opinion.

Dubois was obviously much moved by the discussion of the morning. While neither committing M. Poincaré or de Lasteyrie, he nevertheless left me with the impression that the following was the opinion held at the time by the French Government and himself. That means must be found to reconvene the Bankers at an early date and that France was ready to compromise on the basis of the reduction of the indemnity so far as her share was concerned to a figure which would cover "the 42.1 billion French francs actually disbursed by France on the reconstruction of the devastated areas up to January 1st 1922 plus a figure of 60 billion French francs representing the additional cost incident to the complete restoration of the devastated areas, in other words a total of 102 billion paper francs or approximately 35 billion gold marks". My impression is that the figure of 60 milliard to cover the complete restoration is exaggerated and inserted for trading purposes. According to Dubois "Belgium has disbursed 13 billion Belgian francs on the reconstruction of its devastated areas up until January 1st 1922 and requires 4.2 billion additional Belgian francs to effect the complete restoration. The total Belgian bill, on the same premises as the French, would therefore be 17.2 billion Belgian paper francs or approximately 6 billion gold marks". Under the hypothesis of the reduction of the German indemnity to a figure representing reconstruction of devastated areas and including Italy, S.H.S. and Roumania, according to Dubois "the account could be stated as follows, viz:

France	35	billion	gold	marks
Belgium	6	"	"	"
Italy	4	"	"	"
S.H.S.	1.5	"	"	"
Roumania	1.5	"	"	"
Total	48.0	billion	gold	marks".

Dubois added "that it would be quite logical to reduce the foregoing figures by the figure of German values already transferred, and in addition to reduce the Roumanian figure by the value of the latter's extensive requisitions in Hungary following the Armistice". Dubois stated "that any settlement based on the reduction of the German indemnity to a figure representing the actual cost of reconstruction of devastated areas would necessarily be predicated upon the waiver by Great Britain of any future share in reparation payments". Dubois did not touch on the question of Interallied Debts except to the extent of remarking that "so far as Italy was concerned a settlement on the basis indicated would leave Italy with an uncovered balance of approximately 4 billion gold marks due on account of interallied indebtedness".

The foregoing reference to my personal talk with Dubois should be treated as confidential and in addition not taken too seriously as it was one of a personal and privileged character. I consider it of sufficient interest to report as it is indicative of a decided inclination on the part of the French to a compromise necessary to a settlement of the reparation question. It is also of interest as showing what may be in the back of M. Poincaré's head during his approaching visit and talks with Mr. Lloyd George in London.

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

- I.S. No. 891 - Situation of the Austro-Hungarian Bank as of June 7th 1922.
 - I.S. No. 901 - Review of Austria's position during June 1922.
 - I.S. No. 904 - The Austrian internal loan.
 - I.S. No. 906 - Situation of the Hungarian National Bank of Issue on June 30, 1922.
 - I.S. No. 909 - Do. on July 7th 1922.
- Document Paris 800 - German exchanges during Last Week of June and First Week of July 1922.
 - " Berlin 808 - Amounts Held by Reichsbank in precious metals & bills expressed in foreign & German currencies.
 - " Berlin 828 - Purchase of Foreign Bills by the Reichsbank.
 - " Berlin 836 - Weekly Statement of Reichsbank ending 15th June.
 - " Berlin 840 - Financial Position of the Reich as of June 20th.
- Annex 241c bis - Control of Foreign currency by the Reichsbank.
 - Annex 267 - Expenditure on Public Services subventions.
 - Annex 271 - Memorandum of the German Government on the Flight of Capital and the Return of Capital Exported.
 - Annex 274 - Germany's trade Balance during the first Year of Reparations.
 - Annex 280 bis - Supervision of currencies.
 - Annex 289 - Devisenbeschaffungsstelle Report for Month June 1922.

Faithfully yours,

John A. L. Jr.

JAL/BD
18 encls.

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

P.S. I acknowledge receipt of your letters of June 23, July 12, and July 14th, for which many thanks.

Rebac
COPY - MD

VHL

GREEN

Paris via Naval Radio

Dated July 31, 1922.

Recd. Aug. 1, 1:20 p.m.

Secretary of State,

Washington, D. C.

306, July 31, 8 p.m.

B-730. Miscellaneous reparation receipts since July 24th,
439 francs postal account to Belgium 421,614 francs sale war
materials to France under article 8 financial agreement account army
costs prior to May first 1921. Logan.

VHL

WHITEHOUSE.

August 3rd 1922

At the risk of saying many things with which you are already familiar, and of appearing to "butt in," I am taking the liberty of sending you an outline of certain convictions which have forced themselves on me during my ten months' stay in Russia.

I fully realize that the Russian problem is a many-sided one and that I am in a position to see only a few aspects of it: I can speak of it only as I view it from this end.

Looking at it thus, from the inside, it appears to me that in nearly all the official dealings with the problem there has been a fatal failure to recognize some of its essential elements. The governing factor in our attempts at a solution seems to have been a desire to punish and humiliate the gang of ruffians who hold power in Russia today. Instead of a clear-cut, single-minded purpose to do everything possible - even to the making of sacrifices - to get Russia started on the road to economic recovery; or, to put it in another way, the tendency has been to identify the two things and to talk and act as though the recovery could begin only after the downfall of the present regime.

I start with the assumption that the world needs and really wishes for the reconstruction of Russia and the salvation of the Russian people. My thoughts, in bare outline, without comment or attempts to give supporting arguments or evidence, are about as follows:

1. The present government of Russia is a melange of visionaries, cut-throats, assassins, thieves and riff-raff so unspeakably unrotten that any decent man shrinks from the thought of having any dealings with them. It is, however, a de facto government and has been such for nearly five years; and there is no evidence that it is likely to be overthrown.
2. The great mass of the Russian people are, save for a certain loosening up of moral, economic and political "sanctions," very much what they were before the revolution, neither much better nor much worse, and not differing greatly from masses of people of similar grade of intelligence the world over.
3. The dogma of internationalism has taken but little hold. Even among the visionary doctrinaires of the revolution, it yields place to nationalism whenever the two come into specific conflict, while for the mass of the people with their Slavic strain of mysticism, nationalism and race consciousness are among the most powerful sentiments which inspire them.

4. The present government has, at its command a propaganda organization which is probably as complete and efficient as any that has ever existed anywhere in the world.
5. Any hint of intervention in Russia by any foreign government strengthens the hands of the present regime. It makes little difference whether the interference is direct, as in the case of military invasion, or indirect, as in the case of blockade or the making of conditions preliminary to the granting of economic assistance. Against military invasion it rallies all classes to ~~support~~ the support of the government and the Red Army; in the case of blockade or the official presentation of "conditions," it furnishes the government with readily-swallowed explanations of the economic cataclysm which has overwhelmed the country.
6. Reconstruction can not possibly take place from within - the disaster has been too complete.
7. Reconstruction from without can not possibly come until there is a right-about-face in Russia's policy and a return to economic sanity. No capital or enterprise on any adequate scale is to be expected to take a hand under present conditions.
8. Communism in Russia is already dead. There is still a lot of State socialism, and the politicians still cling to their communistic phrases and formulas. In practice, however - in the application of law - there has been marked shifting toward the Right even in the short time since the A.R.A. came in. The movement is camouflaged in every possible way. Political speeches here, addresses at Genoa or the Hague, public communications to foreign governments, repeated and defiant repudiations of the fundamental principles on which modern civilization rests, are largely intended for home consumption. Then men in the saddle are fighting for their lives. Their retreat is being conducted behind a smoke screen. Attempts to tear away this screen by forcing them publicly to agree to conditions which "violate the sacred tenets of the revolution," so frequently proclaimed during the past five years, drive them into the position of cornered rats.

Granted the above conditions, I see only four conceivable ways
to handling the problem:-

This, I take it, has been demonstrated to be impracticable.

2. United international financial and trade boycott of Russia. Also demonstrated to be impracticable.
3. Action by the United States alone, withdrawing all assistance of any kind, either direct or through intermediary nations. This might bring results if continued for some years; for in the long run effective assistance to Russia must come, either directly or indirectly from the United States; but it would be at the risk of driving the cornered rats and their Red Army to extremes of desperation that would have disastrous consequences, not to mention the prolonged sufferings of an enormous and relatively innocent population.
4. Swallow the bitter pill of recognition of the obvious fact that the present unspeakable group in control in Russia is the de facto government. Yield something to our natural and praiseworthy desire for revenge and punishment against these criminals, and give them a chance to run and yet save their faces and their necks. The salvation of the Russian people is of far more consequence to the world than the exposure and punishment of individual malefactors.

Cut from under this de facto government all the props on which it supports is rally-cry propaganda, by carefully refraining from any threat or act of military intervention, blockade, boycott, or "conditions" of recognition.

Then let nature take its course.

I believe it is easy to guess what would happen:

- (1) The present government would celebrate a temporary triumph.
- (2) With such small added facilities as would become available with the establishment of official channels of communication, consular offices, etc., a flood of little traders and fly-by-night investors would pour in. They would get concessions of one sort or another,

and be favored, as individuals or groups, with certain modifications of Soviet economic policy. Some of them would get stung; others might get rich. The total net result of their activities in the reconstruction of Russia¹ would be slight.

- (3) Big industries and solid investors would open negotiations directly with the Soviet officials. Each would insist on guarantees and modifications of law (or its application) to suit his own particular case. This would be resented at first by the government; but the resentment would not rest on the same rally-cry foundation as if the demands were made by a foreign government. So long as the fly-by-nighters were buzzing 'round, these more solid advances would meet with relatively small success.

- (4) Before long, however, the failure of the "little" foreigners to make any real progress in reconstruction would force the government - now deprived of any plea that foreign governments were persecuting them - to become receptive to proposals from the bigger men and groups. Modifications of the law, subterfuges for evasions of the law, dodges of various kinds, would creep in for making foreign enterprise more attractive; and the movement towards economic sanity would be well under way.

- (5) The final step, which might not be long delayed would be the gradual elimination, probably without violence, of the present personnel of the government, and their replacement by efficient men of affairs.

*German
Penetration*

THE RUSSIAN BUDGET - 1922

Various statements have been issued, from time to time, since the beginning of the year, concerning the budget for 1922.

The first public announcement, in May, covering the nine months, January to September, showed revenues of 885,125,000 gold rubles and expenditures of 1,565,000,000 gold rubles, leaving a deficit of 679,875,000.

This was followed, however, within a few weeks, by a second statement, in greater detail, making violent alterations in many of the estimates, increasing revenues to 993,473,068 gold rubles, and decreasing expenditures to 1,132,019,091, thus showing a deficit of only 138,546,023.

This in turn, was almost immediately met by serious criticism from the Commission on State Plans, on the grounds that improper ~~low~~ rates of conversion from paper to gold had been used, and over-optimistic estimates had been made on both revenues and expenditures. The President of this Commission states that the deficit, instead of being 138,000,000 rubles will reach at least 400 - 500,000,000.

The truth is, of course, that there are so many uncertain factors in the present situation as to make any even approximate guess as to either revenues or expenditures, impossible. No definite policy has been decided on as to taxation, currency, administrative economies, or a large number of other questions which must be decided before the finances can be adjusted. Discussion is rife, conferences are being held almost weekly, and there are repeated promises of early decision and announcement, but they have resulted thus far mainly in high sounding statements of principle.

The State Party in its Congress at the close of 1921 proclaimed a policy in full accord with the resolutions of the Brussels Conference. They declared for

1. Reduction of State expenditures.
2. Re-establishment of taxation
3. Re-establishment of the whole machinery of credit,
4. Gradual reduction of the emission of paper,
5. Preparations for the restoration of a gold currency.

The 11th Congress of the Russian Communist Party in March of this year became more specific. They resolved

1. To abolish the deficit in the budget by
 - a. Reducing the number of and the personnel employed by state institutions, central and local.
 - b. Reducing the emissions of paper,
 - c. Introducing excise taxes,
 - d. Introducing direct taxes on industry and trade,

- e. Introducing heavy taxes on both the production and consumption of luxuries,
- f. Introducing customs duties on both exports and imports.
- g. Increasing revenues from nationalized industries keeping "in the hands of the proletariat" only the "domineering heights of industry", such as transportation, banks, coal, oil, metals and textiles.

Many schemes have been proposed for the carrying out of this program and several wavering steps have already been taken in the direction of its fulfillment.

1. A "State Bank" was organized in November last for the purpose of restoring credit operations. Its central office is in Moscow and it has 50 branches in other cities.
2. A series of new taxes has been introduced - or old ones revived - including direct taxes on industry and trade, customs duties, excise duties on wine, tobacco, matches, spirits, salt, naphtha, beer and similar beverages, cigarette papers, etc., and a readjustment of the "natural tax" on land.
3. A re-examination of the State administrative organizations with a view to introducing economies has been going on for months, and has apparently met with some success, as the number of persons on the administrative pay roll is reported to have been materially reduced.
4. Several plans have been brought forward and discussed for the reduction of paper issues and the restoration of a gold currency, and one or two steps have been taken in that direction. A "corn loan for 38,000 milliard rubles was issued late in May (bonds calling for the payment to the holder after the coming harvest, of stated quantities of grain, in exchange for a present payment to the government in cash) in order to decrease to some extent the necessity for paper emissions.

With the object of assisting in building up a gold fund, a decree has been issued (April 4th), permitting free circulation of gold, silver, platinum, precious stones, and foreign currency; permitting the State Bank to receive deposits in precious metals and foreign currencies; reserving to the Bank a monopoly right of purchase and sale of the same, and providing that all "Precious metals and foreign currencies" acquired by the Bank shall be held in a special fund separate from the general state gold fund.

The actual results of these few steps have not thus far been encouraging. The credit operations of the State Bank have been very limited. In the first three months of its operations, the bank received 295 applications for loans, aggregating 11,148 milliards of rubles. It granted 148, aggregating 3,441 milliards of rubles. Down to March 16, 1922, it had loaned:

To Nationalized industries	3,242	milliards
to co-operative societies	1,631	"
to private industries	157	"

Most of these advances appear to have been on short-term loans, and the bank is already in serious difficulties in the matter of repayment at maturity. It has been obliged to accept payments in commodities and is reported in an article in the Zhisn (an official organ) to have received, down to July 1st, commodities valued at over 4,000 milliards, of which it has resold to the value of 1,273 milliards.

The Superior Soviet of National Economy estimated in April that the sums required for the restoration of the principal industries reached a total of 450,000 milliards of rubles. The assistance rendered by the bank in this direction is therefore pitifully small.

The success of the new taxation, also, has not thus far been great. Direct taxes in 1921 yielded a monthly average revenue of 9,847,000,000 rubles, paper; for the four months January-April, 1922, 88,367,000,000, but the gold value of the paper ruble had sunk meantime to one-fifteenth of its 1921 average value; making the relative value of the 88,367 millions for January-April, 1922, only 5,890,000,000, or only 60% of the 1921 receipts.

The new excise taxes (a small tax on wines existed in 1921, but all the others have been introduced since January 1, 1922) have, however, yielded a considerable income, the monthly average for January - April, 1922, having been 281,188,000,000, which is equal, in terms of relative purchasing power, to 18,749,000,000 rubles of 1921. In gold, however, it amounts to only about 140,000 rubles.

The approximate gold value of the total receipts from all forms of state taxation, except the "natural tax" from January to April, 1922, averaged only 185,000 rubles per month, and as the monthly expenditures, according to the budget for January - September, are variously estimated at from 125,000,000 to 175,000,000. The present increased receipts from taxation do not furnish much ground for optimism.

It should also be added that a number of Russian economists believe that the limit of excise taxation has already been reached. They base their judgment largely on the fact that in spite of

increased rates, the returns, which grew steadily up to March, all show a marked decrease in April. Receipts in

January, 1922, were	40	milliards
February, 1922	169	"
March	890	"

but in April they fell to 25 milliards.

The resolutions to reduce the emission of paper have met with an even more discouraging fate. The first resolution was adopted just at the end of 1921 at a time when the total of all issues to date was 17,544 milliards of rubles. In January, 1922, new issues amounted to 12,022 milliards, and in February 18,832 milliards, bringing the total on March 1st up to 48,398 milliards.

The second more definite resolution to reduce was adopted in March. In that month the new issues were 29,946 milliards. In April they jumped to 45,893 milliards; in May to 75,344; and in June to 109,420 milliards. The "Corn Loan" is reported to have resulted in sales to the extent of 10,000 milliards of paper, but it does not appear to have checked emissions.

In spite of all resolutions to the contrary, the issues since January 1st last have totalled 16-1/2 times the aggregate of all previous issues.

Only in the operation of the plan to reduce the personnel in the various State institutions has there been any marked degree of success. If the figures given out are to be believed, the total number of State employees early in 1922 (excluding the Army) was 7,481,000. By the first of May this had been reduced by some 3,000,000 persons to 4,571,000. Even if these figures be accepted as accurate, however, the national treasury does not benefit greatly, for in the interval average monthly wages have risen 855 per cent. in paper; increasing the outlay in paper from 23,000 milliards a month to 116,000 milliards. In gold value outlay, however, these figures would show some improvement: 71 million gold rubles a month early in the year and 53 million after the reduction in personnel.

There is little prospect of any increase in receipts from the "natural tax." The assessments in 1921 amounted in "rye units" to 340,000,000 poods, and it is alleged, though the figures are probably exaggerated, that some 320,000,000 were collected. The plan proposed early this spring for the coming year called for 380,000,000 poods; but roused so much opposition that a reduction of ten per cent. has recently been promised, bringing the amount for this year down to 342,000,000, or practically the same as last year.

On the whole, the situation is such that the authorities are showing considerable alarm. At a recent session of the All Russian Central Executive Committee proposals were made

and resolutions adopted for a complete reorganization of taxation. According to these resolutions, taxes in kind (the "natural Tax") are to be supplanted in the shortest possible time by money taxes, the chief weight of the latter to be put on excises. At the same time the tax administration is to be more centralized and the taxing powers of local administrative units is to be curtailed. It is too soon, as yet, to say whether these resolutions will really be carried out, or to make any predictions as to their success, if applied. As already stated, certain Russian economists claim that revenue from excises has already reached its limit, and if they are right, this new proposal to place the chief burden of taxation in this form of revenue is preordained to failure.

August 7, 1922.

RUSSIAN INDUSTRIAL POLICY.

In a previous report (July 24, 1922) some description was given of the efforts being made to rehabilitate the industries of Russia through the organisation of "trusts"; and mention was made of a still more recent step in the formation of "syndicates."

The organisation of these syndicates, whose aim it is to unify under one control the various trusts or individual enterprises operating in one branch of industry, has already made considerable progress.

The number of trusts has grown to 356 (July 1, 1922) as follows:

	<u>Number of trusts.</u>	<u>Number of separate establishments included</u>	<u>Number of workers 1,000</u>
Electric	15	88	17.8
Clothing	7	52	19.3
Textile	50	474	278.0
Mining	21	113	25.1
Polygraphic	17	149	13.8
Chemical	31	188	32.5
Paper	8	44	15.1
Timber	26	376	20.3
Silicates	45	277	27.2
Metallurgy	51	398	116.1
Leather	42	302	30.1
Food	<u>43</u>	<u>642</u>	<u>42.9</u>
Total -	356	3,103	638.2

Built up by combinations within the various groups of trusts, there were organised, to July 1st, nine syndicates, as follows: In textiles, salt, matches, leather, mackhorka (an inferior tobacco) tobacco, distillery products, butter and agricultural implements.

The movement began as a voluntary one, but is now being furthered and in some cases prescribed by the State in its efforts to retain control of industry. The match syndicate was organised in January last; the textile in February; the leather in March; and the others at various intervals since.

No unified plan of organisation and activity has yet been worked out and many differences continue to exist in spite of efforts on the part of the government to introduce uniformity.

The textile syndicate includes about 85% of the textile

industry and is apparently the most fully organised one. Its capital stock of 20,000,000 pre-war rubles is allocated as follows:-

<u>Subscribers</u>	<u>Number of juridical persons</u>	<u>Amount (1) pre-war rubles</u>
Cotton trusts	14	4,646,000
Woolen trusts	7	1,309,000
Linen trusts	5	566,000
Silk, hemp, etc. trusts	10	887,000
Raw material organisa- tions	3	4,250,000
Central Trade Section of The Supreme Council of National Economy	1	5,000,000
Undistributed		<u>3,342,000</u>
		20,000,000

(1) The "pre-war" ruble is approximately the same as the gold ruble, though it differs in that allowance is made for the alleged depreciation of gold, in estimating its value.

Of the capital subscribed, it is said that not over ten per-cent has been paid in.

The central offices of the syndicate are in Moscow and employ some 250 persons. Its activities consist in the purchase of raw materials, fuel, machinery, etc., for the subscribing trusts, the regulation of prices through a special commission established by it, which calculates costs of production and sets selling prices; and the handling of the sale of ten per cent. of the production of the trusts which is put into its hands for marketing.

The leather syndicate, including, July 1st, some 90 per cent. of the industry, acts chiefly in the purchase of raw materials, etc. for the trusts of which it is composed; in arranging needed credits; and in the allocation to the trusts of government orders for goods. It is said to have in stock finished goods to the value of 3,000,000 gold rubles and expects to play a very important part in the leather market.

The salt syndicate includes the entire salt producing industry, membership being obligatory under the law. The total annual production of salt by the member trusts is estimated at 59,000,000 poods. Out of this, 8,000,000 poods are left to the trusts themselves for sale through their own channels. The balance of 51,000,000 poods is turned over to the syndicate for sale by it directly and through the People's Commissariat of Food, prices being fixed by agreement between the syndicate and the Food Commissariat.

The tobacco syndicate has placed chief emphasis thus far on the monopoly of purchase of raw materials for the trusts. Under its statutes no trust is permitted to purchase independently, even in small quantities. It is reported that the syndicate also has in mind the development of a selling monopoly.

The match syndicate, although the earliest organized, has not as yet made much progress. Its chief aim appears to have been the unification of the sales organization and the regulation of prices.

As to the actual operations of the other syndicates, no reliable information has yet been given out.

As already stated, there is a clear-cut divergence of opinion between the government and the trusts and syndicates on the policy of these combinations in industry. The State favors combination so far as it simplifies the operation of State control; the industries themselves, on the other hand, are endeavoring to so shape the development as to enable them the better to maintain or increase their independence of State control. The proposal (already mentioned in the report of July 24, 1922) for the formation of a council of syndicates was originated by the industries for the purpose of correlating the prices of those trusts which are to be united in this council of syndicates; unifying the methods of calculating prices; devising means for the realization of these prices; regulating competition between the united organizations; correlating their credit operations; and providing for unified representation in all State institutions. (1)

(1) Resumé from the proposed plan of the organisers.

The Supreme Council of National Economy, on the other hand, is seeking to strengthen State control. In a recent conference it proposed a definite defining of cases in which trusts may be united into syndicates, an allocation of selling districts among separate trusts, the regulation of conditions of sale, the regulation of the receipt and allocation of State orders for goods, a partial centralisation of the sale of trust products and of trust purchase operations, and the allocation of purchasing districts.

The government appears to have adopted the same attitude towards the council of syndicates as towards the syndicates and trusts themselves, being inclined to further the development in so far as the movement can be made to simplify the problems of State control; but it is stubbornly resisting the movement towards greater autonomy and decentralisation; and apparently registered a formal victory at a series of conferences recently held by the Supreme Council of National Economy. At these conferences, from July 24th to 29th last, there were present official representatives of the Supreme Council of National Economy, the District Councils of National Economy from all

parts of the country, including the various associated autonomous republics, of the All Russian Central Trade Union, and of the Central Committees of the Unions of the metallurgical, mining, chemical and textile industries.

After a review, in general favorable, of the results of the "new economic policy during the past eight months," the following questions were submitted for discussion:

1. The correlation of powers between the Supreme Council of National Economy, the trusts and the syndicates.
2. The organisation of trade with special reference to the right of trusts to carry on commercial operations.
3. The method of preparation of programs of production for the coming year.
4. The provision of an adequate supply of funds for industry.
5. The policy to be followed in the fixing of prices.

The discussions on these five questions brought into still clearer light the divergence of opinion between the two parties. As to the relations between the Supreme Council and the trusts and syndicates, the Council maintained that the industries are State institutions and, as such, must be under the control of the State organ set up for that purpose; namely, the Council itself. It recognised, however, that there must be a division of functions, the trusts and syndicates retaining "full autonomy and liberty of action" in all matters pertaining to the "direct administration of their undertakings"; while the Council must control the supplying of the trusts with money, the regulation of prices, the preparation of programs of production, and the nomination of the "responsible leaders." As to the differentiation in function between the trust and the syndicate, the former should have full autonomy in connection with its "production operations", while the latter should "regulate the commercial functions of the trusts."

Evidence of the development of a controversy over the control of the recently proposed council of syndicates was also brought out by the discussion, the Supreme Council evidently endeavoring to extend its authority here also, while the opposing party maintained that the Supreme Council's power is already sufficiently guaranteed by its control over the appointment of the administration of the trusts, for these very trusts which are so far controlled by the Supreme Council, make up the syndicates, while the syndicates, in turn, will choose the council of syndicates.

The discussion on the organization of trade turned chiefly on the question of the right of the trusts to carry on commercial transactions, including retail sale. The Supreme Council of National Economy proposed a limitation on these operations, restricting them to those goods which the respective trusts themselves specialise in, and permitting retail sale only in case it can be shown that the ordinary machinery for such sales (private or co-operative shops) are unable to handle the business. Even in the case of wholesale trade, it must be carried on through the various State commercial organs - central and local - established for that purpose.

On both the above points the advocates of greater freedom of industry appear to have met with small success, if, in fact, they did not meet with a distinct reverse. On the third question, however - the method of preparation of programs of production - they won a point. Henceforth, in laying out a plan for future production, the Supreme Council has started with an estimate of the needs of the State and of the population and has made up its program and allocation of production accordingly, without taking into consideration the purchasing power (paying power) of the market. It has now been decided, on paper at least, that the program of production must be based, primarily, on the ability, both of the State and of the population, to pay for the goods they receive.

If carried out, this decision will unquestionably have far-reaching consequences, for it is virtually an abandonment of the theory that industries must be run for the benefit of the whole mass of the people; that the State is responsible for insuring sufficient production, even though the operations of specific industries have to be carried on at a loss.

Another important step in reversal of policy was proposed by the Supreme Council of National Economy itself, in connection with question four - the financing of industry. As pointed out in the report of July 24th, one of the chief difficulties which industry has had to face is the necessity of supplying several of the State departments with goods gratis. Another recent difficulty has been the inability of industries to repay advances made them (reaching now, some 9-1/2 trillion rubles), for the return of which the Commissariat of Finance has been clamoring. The new proposal is that all industries must be "taken off the State supplying budget," and that all State departments must pay cash for the goods they receive. For the financing of the repayment of advances, it is proposed to form a special "Trade-Industrial Bank" with a capital equal to the total amount of these advances. As an additional measure for relieving the situation, the Supreme Council also recommends that State control shall be limited to the fundamental industries - transportation, fuel, metallurgy and textiles, all "secondary branches" being left to operation on private lease. It recommends, too, the closing down of less efficient plants in all industries and concentration of operations in a smaller number working to full capacity.

These proposals are, of course, only on paper as yet. If actually carried out, they will obviously constitute a long step back toward the original policy of the revolution mentioned in my report of July 24th, which contemplated State control of only a few industries.

The divergance of opinion already repeatedly alluded to was perhaps nowhere more apparent than in the discussion of the fifth question - on price policy. One party contends that the prosperity of the laboring classes depends on the maintenance of industry; that industry can continue to exist only with high prices; and that therefore these high prices must be maintained for both economic and political reasons, even if the interests of rural consumers are sacrificed thereby.

The opponents vigorously protest that the principal consumer is the rural population; that all the difficulties in which industry is involved are due to the low purchasing power of the peasantry; that the demand of the moment is for the production of goods which in quality and price will suit the requirements and the pockets of the peasants; and that, therefore, the road towards revival of industry lies in the direction of low prices and reduced cost of production.

A resolution adopted by the conference on this subject was a partial success for the low price party. It was decided that cost of production must be taken as the basis for prices in State industry, including insurance against the depreciation of the ruble; that selling prices must be high enough to keep industry a going concern; but that the low purchasing power of the population must "be taken into consideration" to the extent of using every effort, including the concentration of activity in the hands of only the most productive concerns, to reduce costs of production.

The final resolutions of the conference, in outline (the full text is not yet available) were introduced by the representatives of the Russian Communist Party. They were as follows:

1. The condition of the principal State industries is very bad. This is especially true of the industries such as fuel, metallurgy, etc., of whose products the State is the chief consumer. The direct cause of the unsatisfactory conditions is the lack of circulating capital, the chief consumers lacking money for their purchases. It is necessary to remove this deficiency or the decay of such branches of industry as the metal and metallurgical is inevitable and an irreparable injury will be inflicted on the Soviet Republic.

2. While recognising the extreme importance of an improvement in our currency, and congratulating the People's Commissariat of Finance on its initial successes in that respect, the conference believes that the policy of the Republic under present conditions should exclude any shadow of dictatorship of finances over industry. Only a unity of the interests of industry and currency can be the basis of the State's policy in national economy, and in order to accomplish this, the activities of the Supreme Council of National Economy in the planning and control of economic policy must be extended.

3. The conference notes a real revival of industry during this year. It believes the success is largely due to the efforts of the workers (in many branches of industry the productivity of labor has reached the pre-war normal) (1), and at the expense of a partial depletion of the fundamental capital of our large industries. Under present conditions, the only real means for making needed repairs and the getting of funds for necessary purchases, etc., is through the sale of our goods abroad. The sums received in exchange must serve the requirements of our industry. At the same time, the conference believes that during the next few months it is necessary to create a fund, through money emissions, for the support of industries.
 - (1) No evidence is given in support of this statement. All the data which I have been able to gather on the subject indicates that it is very far from the truth.

4. Recognising the soundness of the plans advocated, the conference believes that all efforts to convert these plans into actualities should be continued energetically.

5. The conference believes it necessary that the Supreme Council of National Economy should take the following steps:
 - a. To further the "concentration" of production and "maximum loading" of factories and mills;
 - b. To improve the commercial operations of State industries by development of co-operation and of private commercial undertakings (apparently this refers to retail trade only);

- c. In order to simplify and unify administration and regulation, to endeavor to have included in the Supreme Council of National Economy a commission of domestic commerce, and to open a Trade-Industrial Bank as soon as possible.

RUSSIAN LAND POLICY.

Approximately eighty-five per cent of the population of Russia are classed as rural, and the problem of so adjusting the political and economic theories of the revolution as to meet their interests, has, almost from the beginning, been recognized as a vital one. Working plans for "nationalization", "socialization", "collectivism", etc. which are acceptable to the working classes may fall far short of satisfying the demands of an agricultural population, who, in Russia as everywhere else in the world, are characterized by a much higher degree of inherited individualism. The history of the development of land policy since the revolution is the story of an attempt to bring into some kind of harmony the divergent interests and sentiments of the industrial and the agricultural classes.

Prior to the war, the lands of Russia were held partly by the Imperial family, partly by other large landed proprietors, but mainly by the peasants themselves, either as individuals or as "collective peasant societies", an institution which has persisted in Russia from the early Middle Ages. These collective societies included from ten to a hundred, or even in some cases as many as a thousand individual farms. The land of such a community could neither be bought nor sold in individual parcels, the possessor of each farm being considered to be merely a temporary holder and cultivator of his lot. From time to time new repartitions of the land were made, each member receiving a new allotment in a new place, of smaller or larger size in case the population had meantime increased or diminished.

In the interest of improved agricultural practice, it was the policy of the later years of the Empire to foster the development of larger scale farming by modern methods; and the breaking up of these old collective societies, which were by their very nature the least progressive of the agricultural communities, was regarded as a necessary step in this direction. It was the object especially of a series of laws from 1907 to 1910, known as Stolypin's Laws, to assist in this break-up by making it possible for any progressive-minded individual in such a group to free himself from his hereditary bonds and get permanent individual possession of his parcel of land with all the rights, such as the right of purchase, sale and mortgage, which go with individual ownership. The aggregate areas of land held under this system has not, however, in recent times, been large, and by the time of the outbreak of the war, considerable further progress had been made under Stolypin's Laws in the direction of breaking up such holdings into individual lots.

In 1914 the actual distribution of agricultural lands

was about as follows:

Lands held by the Imperial Family and others who did not till it themselves	30 per cent.
Held by individual peasant owners and collective peasant societies	70 per cent.

The first step in the new land policy after the revolution was a declaration in favor of the "socialization" of the land. The basic principle of the law (February 1918) was that all private ownership of the soil was abolished and that all land was to be given into the possession of individuals who would actually work it personally. The distribution was to be made on the principle of "equalized land possession". The individual possessor became an employee of the State; and the produce, after the deduction of enough to meet the requirements of the cultivator, became the property of the State.

The law is a very long and complicated one, containing many details as to the definition of "equality of possession" and the methods of distribution by which it is to be brought about.

From later developments, it has become apparent that the great mass of the peasants, only a minute fraction of whom can read or write, failed entirely to grasp the fact that this law confiscated their land as well as that of the Imperial family and other privileged classes. The thing which they did see clearly and gladly proceeded to act upon, was that the large estates were declared confiscated and under the law were to be turned over to the local authorities "to be justly distributed amongst the working people".

But there were others who wanted land too. Veterans of the war, industrial workers thrown out of employment by the decay of industries, and many others, drifted from the cities to the country to claim a share. They were far from welcome, yet their rights under the law were just as clear as those of the peasants; and their position in the political machine was such as to make it inevitable that the government should go as far as possible in recognizing their claims.

Evidences of serious conflict very early appeared and were probably the main cause of a complete restatement of land policy just one year (February 1919) after the publication of the above "Constitutional Law of Socialization of Land."

The new decree, entitled "Regulations concerning Socialist land administration and the measures facilitating the introduction of the Socialist system of Agriculture" merely gave legal form to a system the putting into practice of which had already been begun some months before. It declares definitely in favor of "large Soviet estates, rural

(1)

communes, group agriculture, and all other forms of collective use of land," and states that "all forms of the individual use of the land should be regarded as merely temporary and doomed to destruction."

This, of course, was a violent departure from the principle of equalising the possession and cultivation of land by individuals as agents of the owner-State; but the law, without any open explanation of the causes of so radical a change, proceeds at great length to prescribe the methods of carrying out the new policy. It does not prohibit individual farming; but by a rather cleverly devised gradation of privileges in regard to choice of lands, rights to State assistance in the form of machinery, other equipment, and credits, and in the employment of hired labor, etc., it creates pressure in favor of the collective forms of cultivation which it approves. The most favored form is the "Soviet farm" (estates taken over and run directly by the State); second in the scale come "rural communes" (the new organizations of soldiers, industrial workers, etc., mentioned above); and following them, "collective agricultural associations" (associations for the collective working of land as distinguished from its collective possession). Last in the scale come individual farms; and they are relatively so meagrely provided for in the matter of State assistance or the allotment of land that the decree practically makes the extension of this form of cultivation impossible.

This decree became even more definite than the previous one in its statement that the ownership of all land vests in the State and that the entire produce belongs to the State. In theory all products must be turned over to the Government except carefully defined quantities required for the upkeep of the farm and the feeding of the farming population and domestic animals. In practice, relatively small quantities appear to have been actually taken in 1919; a much larger quantity was requisitioned in 1920, with a still further increase in 1921 as the necessity for government feeding of the non-rural population, deprived of their pre-war occupations, became progressively more pressing.

In the year following the introduction of the new policy there was a considerable growth in the area under cultivation. In 1913-14, within the present frontiers of Soviet Russia, 55,462,000 dessiatines of land had been planted to cereals. In 1918-19 the area had dropped to 21,489,000; but it rose again in 1919-20 to 36,346,000. The supporters of the government quite naturally claimed this increase as evidence of the soundness of the new policy. Opponents attributed it merely

- (1) The term "rural commune" as used here refers to a new species of organization of which some five hundred developed in 1918. It was made up of soldiers, industrial workers, etc. who migrated to the villages from the cities in search of land, and who, finding the land occupied, organized into groups, seized or procured land by other means and became the possessors of it in common.

to the cessation of war, and emphasized the fact that in spite of the increase, the area was still 35 per cent. below normal. The following years brought a disappointment for the government party, for the area fell in 1920-21 to 30,575,000 dess. and in 1921-22 to 25,661,000, or nearly to the 1918-19 level.

There is, naturally, much controversy as to the causes of this decline, but the prevailing opinion seems clearly to have been that something was radically wrong with the land policy. In any case, the government has seen fit (or has been forced by circumstances) to make two highly important steps in reversal of policy.

It began a year ago by a virtual abandonment of the principle that the entire produce of the farms belonged to the State, when it decreed that all peasants who paid promptly and fully the grain requisitions levied against them should have the right to dispose of any surplus in any manner they chose. It has now followed this up (Spring 1922) by a cutting down of the number of commodities subject to tax in kind (from thirteen to four - cereals, hay, meat and butter); by some reduction in the total quantity to be taken; and by a clearer definition of the methods and measures of assessment and collection. If administered in their apparently reasonable spirit, these alterations should make considerable improvement in the position of the peasant.

Far more significant, however, is a second step recently taken. The first open move towards it was made in December last, when the Ninth Congress of the Soviets declared the necessity for a "secure land possession conforming to local economic conditions."

This was followed on May 22, 1922, by a restatement of the "Fundamental Law of Land Possession."

It begins with a reiteration of the inviolability of the fundamental principle of land nationalisation and a renewed statement that the right to land ownership pertains exclusively to the State. It repeats the prohibition of purchase or sale of land or the borrowing or lending on land mortgages.

So far there is no essential change. The important point is the complete abandonment of the principle that "all forms of the individual use of the land should be regarded as merely temporary and doomed to destruction" by now proclaiming that the peasant must be left free to choose the form of land cultivation which he regards as most suitable. Land is to be given into perpetual hereditary possession of holders working it by their own personal labor.

The bulk of the land is still in the hands of individual holders. Their possession is now made "perpetual" and "hereditary", not as individuals, it is true, but as families.

This right of possession can be forfeited only in the following cases:

- a) If the entire family refuses to accept the right;
- b) If the family gives up farming;
- c) If the family dies out through failure of heirs;
- d) If the family emigrates;
- e) In some cases if the family is convicted of crime;
- f) If the State finds it necessary to exercise the right of State sovereignty.

The law of 1919 definitely favored all forms of collective farming. The new law goes back to a principle almost identical with that of the Stolypin Laws of 1907-10 by granting facilities to individual families to escape from the bonds of the old "collective peasant societies". It provides that if, at the time of a general repartition of land in such a community, any individual ^{farm} wishes to withdraw, it may do so, even against the will of the community, and must be given its share of the community land in a single separate piece which thereafter is excluded from the community land fund. The law goes even farther by decreeing that such a withdrawal may take place without waiting for the next general repartition if, at any time, it is demanded by one-fifth of ^{by} the farms in any community having not more than 250 farms, or ^{by} not less than 50 farms in any community of over 250 farms.

Leasing of farms is also permitted, though the right is hedged about with many provisions to prevent abuse. In general, leasing may be permitted

- a) If there is "temporary decay" of the farm owing to "elementary calamities";
- b) If there is a temporary lack of workers in the family;
- c) If the lessees are in a position to work the full quantity of land leased, by their own labor;
- d) If the period is short (the law limits the term to three years, which, however, may be doubled in unusual cases with the permission of the administration.)

Land may not be leased in any case if the possessing family ceases to work, or emigrates, or changes its profession.

The law of 1919 contained very definite and inelastic

provisions concerning the hiring of labor. In general, hiring was permitted only on the Soviet estates, though provision was made for temporary hiring in times of pressure of work on the other forms of collective farms. The new law is more elastic. It permits hiring even by a single farm, though only as "subsidiary labor", when a family, through lack of labor or implements, would be unable otherwise to get essential work completed in time, and then only on condition that all members of the family itself, as well as all the hired laborers, take part in the work. In addition, in those regions where there is much land and small population, and in the organization or reorganization of farms in uncultivated or deserted areas, more permanent employment of hired labor is permitted to the extent to which it may be required by the best agricultural practice.

In short, the law is a distinct recognition of the individualistic tendencies of the mass of the peasants, coupled with a continued attempt to guard against any return to economic inequality in land possession. It seeks through the limitation of lease, the requirement that land be held only by those who actually till it, and the restrictions on the hiring of farm labor, to uphold the policy of the "equalized land possession" enunciated in 1918. The new system of land taxation, which is highly "progressive" in character, helps toward this same end of maintaining a "social equilibrium".

The supporters of the new law claim that it will satisfy the individualistic sentiments of the peasant, will stimulate his activity, and lead to restoration of the cultivated area and a general agricultural recovery and improvement. Opponents contend that it still falls far short; that there is an inherent contradiction between the idea of social equilibrium and the improvement of agricultural productivity; that the prohibition of purchase, sale, and mortgage, the limitations on leasing, and the highly progressive character of the natural tax will still stifle the activity of the strongest and most energetic of the peasant families who have in the past always been in the vanguard of rural progress.

However, this may prove to be, there can be no doubt that the law indicates an important reversal of policy and is evidence that the government is showing a willingness to face facts and to break away to some extent from the domination of mere phrases.

MEMORANDUM ON
TAXES ON INDUSTRY AND TRADE.

Under the "New Economic Policy" many adjustments are being made in the details of the Russian tax system. As industries have been denationalized and leased to "private" concerns, later organized into trusts and syndicates, the policy of regarding the total produce as the property of the State has, of course, been abandoned. Taxation has been substituted, but apparently in rather opportunist fashion; and there is great complaint among industries as to the inequities and excessive amounts of the burden.

There is, in addition, much confusion as to the taxing powers of the central and local authorities; and the application of taxation to the trusts and the separate plants organized into these trusts. Complaints appear of conflicts of interest leading to double taxation.

The difficulty as to control and local taxation was recently adjusted, on paper, by a decree placing at the disposal of the local authorities a little less than one-half of the proceeds of the tax on industry and trade and giving them the right to tax some eighteen different articles and services, but reserving to the central government the total proceeds of the excise taxes.

The tax on industry and trade, one-half of which goes to the central and one-half to the local government, consists of two parts; a "fundamental" tax levied at a rate of 7% on the "circulating capital" and various "supplemental taxes" for education, social welfare, medical care, etc., of the workmen.

A recent publication (Herald of Industry and Trade) makes an examination of the application of the new laws. This analysis shows that the average burden of taxation on seventeen most important articles manufactured by the trusts reaches 25-30% of their circulating capital, bearing very unevenly, however, on the various commodities. The report presents the following table:

<u>Commodity.</u>	<u>Percentage of direct taxes to market price of commodity.</u>
Sugar	4.02
Lac and colors	5.38
Wine	9.40
Chemicals	9.32
Naphtha	10.00
Rubber goods	13.30
Metal mfs. and machinery	13.50
Cloth	17.60

Leather	18.25
Cotton goods	19 .38
Timber	20.00
Sweets	22.22
Tobacco	22.22
Tea	24.20
Cement	45.67
Polygraphic goods	62.80
Electro-technical products	72.70

The report goes on to summarize its complaints, as follows:

1. The total tax is excessive, reaching an average of 25-30% of circulating capital;
2. The taxes exceed the pre-war level;
3. The rate of the fundamental tax on trade (7% of circulating capital) pre-supposes profits of 30%, while in reality no such profits exist;
4. The supplementary taxes reach an average of not less than 35% of the wages paid;
5. Taxes are called for at unfavorable times;
6. There is sometimes double taxation;
7. Taxes are levied or altered suddenly without prior notification to industry or opportunity for a hearing.

Demand is made

- a. That the tax on trade be reduced to $1\frac{1}{2}\%$ of the circulating capital;
 - b. That the supplemental taxes be thoroughly re-examined;
 - c. That excise taxes be re-examined, and readjusted with due consideration of prices and the possibilities of production;
- and
- d. That a permanent inter-departmental commission be established for the consideration of all new taxes.

DECLINE OF RUSSIAN AGRICULTURE.

Many factors have contributed to the famine which has devastated Russia - war, political, social and economic disorganization, drought, etc. - and it is obviously impossible to determine with any degree of accuracy the exact part which each has played in bringing on the catastrophe.

Much of the discussion which has been carried on as to whether the famine was an "economic" or a "natural" famine has been largely academic in character, with no clear definition as to the precise meaning of these terms, and with no very exact knowledge of the facts of the case.

The main outstanding fact is that land cultivation has declined. Within the present territory of European Russia (excluding the Ukraine) there has been a progressive decline since the last pre-war year, 1913-14. In that year the area sown to cereals was 56,500,000 dessiatines; in the season just closed, 1921-22, it was only 25,500,000, a decline of 55 per cent.

The annual plantings have been:

1913-14	56,500,000 dess.
1915-16	49,600,000, "
1916-17	43,000,000 "
1918-19	45,000,000 "
1919-20	35,500,000 "
1920-21	30,000,000 "
1921-22	25,500,000 "

From 1913-14, the last pre-war year, to 1916-17, the last pre-revolution year, the decline was at the rate of 8 per cent. per annum; for the five seasons since the revolution the falling off has been at the rate of 11 per cent. per annum.

In the Ukraine and in Siberia there has been a similar drop, the areas planted to cereals having been as follows:

	<u>Ukraine</u> Dess.	<u>Siberia</u> Dess.
1913-14	20,100,000	9,300,000
1915-16	18,200,000	7,000,000
1919-20	14,300,000	4,500,000
1920-21	14,800,000	3,900,000
1921-22	10,800,000, or 54%	3,100,000, or 33%
	of 1913-14	of 1913-14.

The causes which have produced this decline must, obviously, have been very generally operative, not only since but also before the revolution; though whatever they are their combined

effects have been more marked since than before that event.

The decline has not, however, been uniform throughout the country. For statistical purposes European Russia is usually divided into two great "regions," the "Consuming Region" (that in which agricultural production does not normally suffice for local needs) and the "Producing Region" (in which there is normally a surplus).

The areas sown to cereals in the two regions have been:

	CONSUMING REGION		PRODUCING REGION	
	<u>Dessiatines</u>	<u>Percentage of 1913-14</u>	<u>Dessiatines</u>	<u>Percentage of 1913-14</u>
1913-14	10,300,000	100.0	36,900,000	100.0
1915-16	8,700,000	85.0	33,900,000	92.1
1916-17	7,700,000	74.9	29,300,000	79.5
1918-19	6,100,000	59.4	24,900,000	67.5
1919-20	6,300,000	60.8	24,800,000	67.3
1920-21	6,300,000	60.8	19,800,000	53.7
1921-22	6,500,000	63.1	16,000,000	43.3

From the last pre-war year to the last pre-revolution year the Consuming Region lost 2,600,000 dess., or 25 per cent., and the Producing Region 7,600,000, or 20.6 per cent.; there was no great difference between them in this respect. But between the last pre-revolution year and the present year the former region lost only 1,200,000 dess., or 16 per cent. (with a slight increase since 1918-19), while in the latter region 13,300,000 dess. went out of cultivation, or 45½ per cent.

This much more rapid decline in the Producing Region calls for some specific explanation; and the cause usually assigned by impartial Russian observers is the heavier burden of Government requisitions in this region than in the Consuming Region.

Requisitioning was introduced by the present Government in the season 1918-19. The amounts officially reported to have been taken are:

(1)	CONSUMING REGION		PRODUCING REGION	
	<u>Requisitioned Poods</u>	<u>Equivalent in poods per dess. cultivated</u>	<u>Requisitioned Poods</u>	<u>Equivalent in poods per dess. cultivated</u>
1918-19	795,000	0.13	106,800,000	4.29
1919-20	14,300,000	2.29	155,400,000	6.27
1920-21	24,000,000	3.84	125,200,000	6.35
1921-22	33,100,000	5.10	52,900,000	3.31

(1) The amounts stated are the official figures of receipts by the authorities; There was also unquestionably a large amount of irregular requisitioning which never got into the government accounts.

The total amount collected by the government from the Consuming Region for the three years preceding the "famine year" averaging 2.1 poods per dessiatine of land cultivated; in the Producing Region, 5.9 poods. As the normal yield per dess. is approximately the same in the two regions (45.9 poods in the former and 43.3 in the latter), the burden on the peasants has been nearly three times as heavy in the latter as in the former.

It is unwise to draw too definite conclusions from Russian statistics, but the above figures do at least support a strong probability that a large part of the decline in cultivated area since 1918-19 has been due to the uneven distribution of the requisition burden. A requisition of 2.29 poods per dessiatine in 1919-20 apparently did not strike the peasants of the Consuming Region as being excessive, for they kept their cultivation up to the same level in 1920-21; but the three-fold burden of 6.29 poods per dess. in the Producing Region was almost certainly a large factor in the loss of 5,000,000 dessiatines in a single year; and this loss in cultivation was, in turn, an extremely important contributing cause of the famine disaster.

The famine experience may prove to be a turning point in the requisition policy. It has forced the government, because of the impossibility of collecting from the famine gubernias, which are almost wholly within the Producing Region, to lighten the burden there and increase it in the Consuming Region. The result may very possibly be some recovery in cultivated area in 1922-23.

Enclosure Léon Letter Aug 14/22

CONFIDENTIAL

Paris, 18 rue de Tilsitt,
10 August 1922.

PERSONAL

Mr. Léon Delacroix,
Belgian Delegate,
Reparation Commission.

My dear Mr. Delacroix,

With reference to our personal chat this morning. There is one fundamental which every economist has explained but which is still imperfectly understood by non-economists and not understood by the public at large, unless, like myself, they have had it rubbed into them by seeing at close range the actual working of the indemnity payments.

This fundamental is the difference between an individual and a nation in respect to capacity to pay a debt. An individual whose assets exceed his debt can sell sufficient assets to pay. A nation cannot. Germany, for instance, has as a nation capital assets which conservatively are worth six times its debt. But the outside world will not buy these assets because in the nature of things they have to stay in Germany. The outside world has bought a few of them i.e., has made some investments inside of Germany and will buy more from time to time, but the direct sale of assets which must always remain in Germany is an unimportant factor. The suggestion of taking over such assets, which has so often been made, is only one form of the various kinds of machinery which have been suggested as a means for obtaining reparations. The purpose of all of this is to enable or induce the outside world to do indirectly what the outside world will not do directly, viz, invest in (or loan against) assets which must remain in Germany so as to furnish the gold (or foreign currency) to pay the indemnity.

Roughly these different kinds of machinery or methods may be listed as follows:

1st - Bonds secured by a first mortgage on all German assets. Substantially this is what the Allies now have with their A, B and C reparation bonds. If there is any close analogy between debt paying by an individual and debt paying by a nation, it would be evident that these bonds are simply secured and that all the Allies have got to do is to cash them in; but no one will buy these bonds because it is obvious that Germany cannot get gold or foreign currency to pay them.

2nd - A transfer to the Allies of a certain percentage of the securities of German industries. This involves so many complexities that one is inevitably driven to the third suggestion.

3rd - A transfer of title to property and industries inside of Germany to some Syndicate, which Syndicate shall capitalize them and issue securities against them, which securities will be accepted in payment of the indemnity and marketed.

The last suggestion would work best for the railroads and post-office, for the change from Government management to private management would tend to greater economy and efficiency, but I doubt if any Allied Government is politically able to champion denationalization of anything that has already been nationalized, even if they are only attempting to apply denationalization to Germany.

But apart from politics two fundamental difficulties remain. First - Outside management, even if you preserved some German participation could not be efficient, particularly in industries which are now privately managed by men who have grown up with them. This would be true if you speak only of management in its strict sense, but it is doubly true if you think of the effect that outside management and ownership would have on ^{the} organizations which were being managed. You could not practically count on loyal co-operation and efficiency throughout the organization. If you imagine the situation reversed and Germany taking over by way of indemnity the railroads, Post and Telegraph Office, and coal mines and the great industries of Schneider in France, you cannot possibly imagine anything but disorganization of the organizations, tremendous loss of efficiency combined with hostility on the part of the public, which of itself would destroy a large part of the present value.

Second - Even if the German properties were taken over, the outside world would not buy these securities any more than they will buy the present bonds. The change in the machinery would not conceal the fact that you were asked to invest in property which must remain in Germany and property which would in the main produce no income except in the form of paper marks which are of no value to the outsider until they are transferred into gold or foreign currency. The present problem is mainly the problem of how Germany will obtain gold and foreign currency to meet her outside obligations. Any one who bought these proposed securities would find he had transferred that problem from Germany to himself.

Stated in a nut-shell. Germany has practically used up all her gold; she has sold paper marks to foreign speculators for foreign currency until that market for the paper mark is exhausted; nothing remains from which she can get foreign currency except the balance of exports over imports which, even taking the maximum figure of her invisible balance, is extremely small if any. She cannot practically pay a large indemnity

to Mr. Léon Delacroix.

3.

unless the Allies take actual goods or her export balance increases. The present situation, - which might have been and was predicted, - is the natural result of the demand upon Germany for gold and foreign currency. It might have been alleviated, postponed somewhat, if Germany had been at the same time more economical and more energetic, but there is no need of searching for a far-fetched explanation like a conspiracy on the part of Germany to debase the mark, when the reasons for the fall of the mark are so simple and obvious. The result of the present policy has been to reduce already very greatly Germany's capacity to pay and this capacity will disappear almost wholly if no change in policy occurs. The whole trouble arises from the failure to listen to sound economists who from the beginning have preached the distinction between a nation and an individual and have insisted that, apart from its gold reserve and its holding in foreign value, a nation could pay its foreign debt only out of the balance of exports over imports.

I was much impressed by your reference this morning to the lack of appreciation on the part of certain groups of the Allied public of elementary economic principles. The foregoing only covers one phase of this lack of understanding. I feel as do you that useful results would attain an effort to educate public opinion and am writing this letter as a line of thought along which such education might be directed. For reasons which will readily occur to you I would request you treat this letter as entirely personal and confidential.

Faithfully yours,

JAL/BD

REPARATIONS.

REVISE BY COMMITTEE OF ALLIED EXPERTS OF THE
DOCUMENT DISCUSSED BY THE ALLIED PRIME MINISTERS
AT THE MEETINGS HELD ON AUGUST 10th and 11th, 1922.

.....

NOTE:- Deletions made by the Committee from the document
as submitted to them are shown in square brackets.

Additions by the Committee are doubly underlined.

.....

The obligations imposed upon Germany by the Schedule of Payments of 9th May 1921 have not been fulfilled. The cash payments due under that Schedule were only effected in full during 1921 and the German Government has now expressed its inability to continue the reduced cash payments fixed for 1922, and have in fact demanded a moratorium in respect of all cash payments up to 31st December, 1924. The deliveries of coal and of timber required by the Allied Governments and ordered by the Reparation Commission have not been effected in full. The German Government has, since the Armistice, balanced its Budgets by the issue of Treasury Bills and covered its payments by the increase of the fiduciary circulation, thus depreciating the mark and destroying its gold value. Meanwhile, it has incurred large expenditure especially on public works which were not urgent and on subsidies, which it has only recently taken steps to abolish.

The Allied Governments will only agree to the grant of a further moratorium to the German Government if effective guarantees are secured that these conditions will not recur.

These guarantees are as follows:-

1. The German Government shall proceed to the execution of all the measures which have been or may be required by the Reparation Commission to ensure the full autonomy of the Reichsbank. [and shall give the Reparation Commission the fullest power of scrutiny to ensure the efficacy of these measures.]

2. The German Government shall forthwith proceed to carry out the decisions of the Reparation Commission and the Committee of Guarantees with regard to the measures required to secure an effective control of the arrangements made for keeping down the floating debt. It shall further carry out the decisions of the Reparation Commission and the Committee of Guarantees with regard to the measures required for putting a complete stop at an early date to further increases in the floating debt and for beginning its reductions, and shall submit by the 31st December, 1922, to the Reparation Commission the proposals already requested in the Commission's letter of the 14th June, 1922, with a view to limiting the fiduciary circulation and stabilising the German currency. [as soon as possible to the Reparation Commission the proposals already requested by the Commission with a view to the reform and stabilisation of the German currency.]

3. The German Government shall continue to collect the levy payable in gold or foreign currencies amounting to at least 25% [26%] of the total value of German exports. The proceeds of this levy shall be paid into an account in the Reichsbank standing in the name of the Committee of Guarantees.

The Committee of Guarantees will be invited to strengthen the supervision which it exercises over the value of German exports, especially by making use in the occupied territory of the present supervision of export licenses, so long as it is in operation.

[This was adopted in place of the Article 3 proposed by M. Poincare for consideration by the Committee of Experts:-

"La Commission de Reparations sera invitee a fortifier le controle qui exerce la Comite de Garanties sur la perception du prelevement sur le 26%, notamment en utilisant dans les pays occupes le controle existant des licenses d'exportation."]

4. The produce of all German import and export duties other than the levy shall be paid monthly to a special account at the Reichsbank which shall be under the scrutiny of the Committee of Guarantees. The German Government shall have the disposal of the sums standing to the credit of this account so long as the Reparation Commission is satisfied that the German Government fulfils the obligations that have been or may be imposed upon it by the Reparation Commission. If at any time the Commission

is not/

is not satisfied that this is the case the Committee of Guarantees shall have the right to take over the sums standing to the credit of this account and to secure the payment to it of the produce of these duties thereafter.

[The following additional paragraph was not adopted by the / Committee of Experts :-

4.(a) The Reparation Commission shall be invited to consider the permanent transfer of the Committee of Guarantees to Berlin.]

5. The German Government shall carry into effect the arrangements that have been or may be made with the Committee of Guarantees for the supervision both of the receipts and of the expenditure of the Budget and shall give the representatives of that Committee the fullest facilities for investigating and reporting on all proposals affecting either side of the Budget.

6. The German Government shall before 31st December, 1922 [forthwith] proceed to carry into effect the proposed legislation agreed upon with the Committee of Guarantees with a view to preventing the export of capital and shall give the representatives of the Committee of Guarantees the fullest facilities for observing and reporting on the execution of this measure.

Paragraphs 7 and 8. No agreement was arrived at on these paragraphs.

The original text was as follows:-

7. In the event of any failure to carry out the programme of timber deliveries fixed by the Reparation Commission for the restoration of the devastated areas or otherwise, the Reparation Commission shall consider the establishment by application of Article 248 of the Treaty of Versailles of a supervision over the State forests so as to ensure the full execution of these deliveries.

8. In the event of failure to carry out the programme of coal deliveries the Reparation Commission shall similarly consider the establishment of a supervision over the State Mines in the Ruhr.

The British and Japanese Delegations accepted this text as it stood.

The Italian Delegation proposed the substitution for these paragraphs of the following text:-

"In case of a default by Germany in the deliveries of Coal and Timber prescribed by the Reparation Commission, the Reparation Commission will be invited to establish a system of supervision over the State Mines in the Ruhr and the public forests belonging to the German States, with a view to ensuring the complete execution of the Coal and Timber deliveries. This provision is without prejudice to the powers held by the Commission in virtue of Article 248 of the Treaty of Versailles".

The Belgian Delegation proposed the following text:-

"The Reparation Commission will collect and utilise the net profits of the State Mines in the Ruhr in the same way as Article IV prescribed the collection and utilisation of the Customs and Export Duties. If it considers it necessary the Commission shall have power to give direct instructions to the Director of these Mines as regards the destination of its output. In the event of

these instructions not being strictly obeyed, the German Government shall cause the dismissal of the Director and the appointment of a successor.

Without prejudice to the exercise of the other rights which the Commission possesses in virtue of Article 248 of the Treaty of Versailles, the Reparation Commission in application of that Article and on finding a default by Germany in the Coal deliveries prescribed by it, shall specially apply the first charge it possesses on the State Mines in the Ruhr, by requiring the transfer of the property in these mines to the Commission."

The French Delegation proposed the following text:-

"In consideration of the moratorium granted to Germany, and with a view to guaranteeing the execution of the programme of Coal and Timber deliveries, the Reparation Commission shall exercise control over the State Mines in the Ruhr and the public forests of the German States so as to ensure the complete execution of the deliveries of Coal and Timber. The surplus receipts from these undertakings shall be paid into a special account at the Reichsbank, standing in the name of the Committee of Guarantees.

Without prejudice to the exercise of the rights which the Reparation Commission exercises in virtue of Article 248 of the Treaty of Versailles, the Reparation Commission on finding a default by Germany in the deliveries of Coal prescribed by it shall specially apply the first charge which Article 248 gives to the Allied creditors on the State Mines in the Ruhr, by effecting the transfer of the property in these mines to the Reparation Commission as the representative of the Allied Governments."

9. The Reparation Commission and the Committee of Guarantees shall be invited to direct their attention to the measures to be taken to secure a real surplus of the receipts over the expenditure of the German Budget and the German Government shall give effect to the requirements of the Reparation Commission with a view to securing that such surplus shall be brought into existence at the earliest possible moment and to the maximum amount feasible.

10. Subject to the acceptance by the German Government of these guarantees it will be for the Reparation Commission to grant a moratorium in respect of all cash payments remaining due from Germany on account of reparation up to the 31st December, 1922, - (and further the Commission shall as soon as possible fix the annual payments in cash in respect of all Peace Treaty Charges for the succeeding period at such an amount not exceeding 26% of the value of German exports as they may find to be proper with a view to the early flotation of a loan by the German Government, the major portion of which loan shall be devoted to the payment of reparation.) In lieu of the words in square brackets the British, Japanese and Belgian delegations accepted the following text:

"The Reparation Commission will pronounce as soon as possible on the request made by Germany for a moratorium for the years 1923 and 1924 and will fix the payment to be made on account of reparations in the succeeding period at such amount as they may find proper with a view to the early flotation of a loan by the German Government the major portion of which shall be devoted to the payment of reparation."

The Italian Delegation agreed to a proposal put

forward/

forward by the Belgian Delegation to invite the Reparation Commission to fix the cash payments of Germany after the 31st December, 1922, at an amount not exceeding 25% of the value of German exports, on the following conditions:-

- 1) the moratorium should only be granted up to 31st December, 1923.
- 2) deliveries in kind to the various Allies should be determined by the Reparation Commission at their discretion.
- 3) the schedule of payment and the subsequent decisions of the Reparation Commission should remain in force.

The French Delegation considered ~~that~~ no moratorium should at present be granted for the period after 31st December, 1922; they added the following declaration: "The French Delegation state that they are as anxious as the other Allies that a loan should be issued as soon as possible in Allied and other countries, but they consider that it is impossible to prejudice by the grant of a moratorium for 2 years the general settlement of the question of reparation and inter-allied debt."

In regard to this declaration the British, Japanese and Belgian delegations took the view that their proposal did not prejudice the general question of reparation and of inter-governmental debts, and that the issue of a loan afforded the best if not the only ~~prospect~~ prospect of getting any substantial payments on account of reparation."

The Committee of Guarantees shall during the period of the moratorium and to the extent decided upon by the Reparation Commission transfer each week to the German Government the amounts standing to the credit of the account referred to in paragraph 3 so long as the Reparation Commission is satisfied that the German Government is

carrying/

carrying out the reforms required of it. If at any time the Reparation Commission is not satisfied that the German Government is fulfilling its obligations the Committee of Guarantees shall, on receipt of notification from the Reparation Commission transfer to the Commission the sums standing to the credit of its account and all further sums paid to that account.

11. The following new paragraph was adopted:-

As regards the cash payments due from Germany under Sections III and IV of the Economic Clauses, the Allied Governments propose to require the payment by Germany of the £ 2,000,000 due on the 15th August within four weeks from that date. As from that date they propose to denounce the Agreement of the 10th June 1921, and to take steps to negotiate arrangements separately with the German Government for the settlement of any balances due to them under the Economic Clauses, any such arrangements being submitted for the prior approval of the Reparation Commission.

12th August 1922.

ACKNOWLEDGED

SEP 8 - 1922

B. S.

JAMES A. LOGAN JR.

Paris, 18 rue de Tilsitt.
11 August 1922.

PERSONAL & CONFIDENTIAL

My dear Ben,

The Reparation situation the last ten days has been nebulous due to political maneuvering preceding and during the London Conference. From information just gathered there is every reason to believe that a compromise will be reached in London tomorrow. My present impression is that this compromise will fall far short of offering any real solution to the reparation question.

I have just picked up some information on certain subjects which may be of interest. I mention the sources of this information but while I accept the general line of the statements, I am not prepared to underwrite all the details. I hesitate somewhat reporting these conversations as I am not a marplot and as I feel that any effort along such lines is far from what is needed at this time.

Mr. Delacroix, the Belgian Delegate on the Reparation Commission, in a personal chat yesterday referred to certain phases of a conversation between Lloyd George and Loucheur (the latter then French Minister of Reconstruction in the Briand Cabinet) which took place at a Checkers meeting towards the end of November or the first part of December, 1921, which has certain interest. At the meeting these two gentlemen were discussing the reparation question. Lloyd George, it appears, expressed considerable concern regarding the interallied debt position. He told Loucheur that there had been a considerable stiffening in American attitude so far as the payment of England's debt to America was concerned, which stiffening clearly indicated a purpose on the part of America to force England to fully acquit her debt. He then told Loucheur that the attitude of America vis à vis England was only a foregoer of the attitude of America vis à vis France on the same question, and finally pointed to the necessity of Great Britain, France, and the other Allies coordinating their action and presenting a united front on this question to America. Loucheur was apparently impressed and with the consent of Briand an agreement in the shape of an unsigned proces-verbal was drafted, copies of which were filed in Downing Street and the Quai d'Orsay. While Delacroix did not say so my guess is that a somewhat similar negotiation was undertaken with the Belgians. According to Delacroix, Poincaré when sending Parmentier to America disregarded the Briand-Lloyd George agreement set forth in the proces-verbal, taking the general position that the Franco-American debt question was one exclusively of negotiation between France and America in which England was not concerned and that the "united front" policy was impolitic from the French point of view. According to Delacroix, Lloyd George was highly incensed by this desertion of the

"united front" policy by France and this fact was largely responsible for England's formal demand on France for the settlement of the former's debt and in addition a factor of importance leading to the drafting of the Balfour Note.

On or about July 15th the French Government loaned 55 million francs to Austria. This loan was secured by the Austrian Gobelins tapestries which were ear-marked for this purpose. It was stipulated, and the Austrian Government agreed, that this 55 million francs would be used for the new Austrian Bank of Issue with the exception of the difference between the francs to the value of 1 million pounds sterling at the rate of conversion of the day the loan was made and the 55 million francs, which difference would be used by the Austrian Government in paying interest to French beneficiaries under the Private Debt Agreement between France and Austria. The rate of conversion is said to have been about 48.50. I have no special criticism to offer on this arrangement which was obviously intended to throw some dust in the eyes of the French tax payer to the advantage of other French beneficiaries, as it only concerns the French. On the other hand it is a somewhat ingenious method of over stating the value of "relief" accorded by France to Austria in the present Austrian crisis. I am advised that the British had incorporated a somewhat similar measure in its agreement with Austria, but at the last moment this special provision was cancelled.

On July 26 information appeared in the Italian press that a "Convention governing the release of German property in Italy was signed on July 25, and will be submitted for approval to the Italian Parliament. The sum to be released is 800 million paper lire, payable in installments. Hotel property, property in the frontier districts, and property of strategic, artistic, and historic interest are excluded from the provision of the agreement. Under this convention the German Government buys back en bloc all German values sequestered. These values will be returned to their original owners. Payment will be made in installments on certain fixed dates. The first payment will be made on the date of the ratification of the agreement by the Parliaments. The Reparation Commission has shown some concern regarding this arrangement and its possible effect on the rights of the Commission under Article 248. The Finance Service is now making an investigation and the Italian Government has been requested to furnish the Commission with a copy of the agreement referred to.

I enclose herewith clipping from the Manchester Guardian under date of August 9, entitled Private War Claims, and purporting to show certain phases of French "Clearing Office" operations which I feel may be of interest to the Department. Particular attention is drawn to the following quotation:

"Despite the nominal fixing of the burden of reparations, Germany is still far from having any conception of the demands that will actually be made against her. The claims brought into court" (under Art. 236 and 297e Versailles Treaty) "up to June 1 total over 7.6 milliards of francs which, with the franc at something over 50 to the pound, makes over 400 milliards of paper marks, but according to the French authorities it is hoped to

raise these claims up to 50 or 60 milliards of francs".

The article then continues with a description of the bases of certain of the French claims which if correctly reported are astounding. As clearing office operations are outside the purview of action of the Reparation Commission, I have no information available at this time upon which to base any accurate appreciation of the situation. I will endeavor to get together some facts and make a full report at a later date. It is interesting to note that past benefits of clearing office operations, or, in other words actual transfer of cash by Germany, have largely gone to Great Britain. (See previous reports). This is due to the fact that the British had anticipated the benefits to be derived through the Clearing Office operation and had assembled some 20 or 30,000 claims right after the Armistice which they presented to the Germans, thus giving them a decided jump on the "benefits". I am informed that the favorable British balance has been largely liquidated. On the other hand, the French, who were slow in presenting their claims, are only about now in the technical position of being able to effectively benefit under this treaty provision. It is therefore an obvious temptation on the part of our French friends to push "Clearing Office" payments which up to date have had a priority over reparation payments.

I suggest that all of the foregoing be accepted only with every reserve.

Faithfully yours,

John A. L. Jr.

JAL/BD
Encls.

Loose in 157

P.S.- I enclose herewith Document Berlin 867 "Reichsbank Weekly Statement for week ending 15 July" and Document Berlin 875 "Financial position of the Reich - period ending 20th July 1922" which may prove of interest to you.

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

C O P Y.

Green
Paris
Dated Aug. 12, 1922.
Recd. 12:14 P. M.

CONFIDENTIAL

Secretary of State,
Washington, D. C.

318, August 12, noon.

B-736. Miscellaneous reparation receipts since August 5th:
Luxemburg coal 7,293 pounds sterling credit Belgians. Logan.

JHB

WHITEHOUSE.

ACKNOWLEDGED

SEP 8 - 1922

R. S.

JAMES A. LOGAN JR.

Paris, 18 rue de Tilsitt.
18 August 1922.

PERSONAL & CONFIDENTIAL

My dear Ben,

I enclose herewith copy of the final report submitted by the Allied Experts to the Allied Prime Ministers at the meetings in London of August 10th and 11th 1922 concerning reparations. I am informed that the Allied Prime Ministers were in practical accord with the recommendation of the Experts excepting Articles 7 and 8 concerning "supervision" of timber and coal deliveries. In these latter particulars substitutive proposals (the text of which I have not been able as yet to secure) were considered but as it was not found possible to reconcile the divergent views of Mr. Lloyd George and M. Poincaré on these issues, the London Conference adjourned without reaching any agreement. The full import of the British objections to Articles 7 and 8 referred to below is not apparent from the text of these articles as appearing in the enclosure. The substitutive articles presented by the French Prime Minister contained more positive and stringent exactions than those given in the attached draft.

The British objection to the Poincaré draft on "timber deliveries" was largely political in character. The most extensive areas of "State Forests" in Germany are in Bavaria. The Berlin Government, as generally known, has encountered difficulty in the exercise of its control over Bavaria and many measures proposed by the Berlin Government affecting internal affairs in Bavaria have been openly challenged by the Bavarian Government. The British therefore held that the Bavarian Government would refuse point blank any Allied "supervision over the State Forests" in Bavaria accorded by the Berlin Government and that any attempt at coercive action to this end would bear no fruitful results and might even lead to undesired political consequences of far reaching importance. The French held on the other hand that they did not contemplate forcing Allied "supervision over State Forests" so long as Germany effectively made deliveries of the timber demanded by the Reparation Commission and needed by France and her other Allies in the reconstruction of devastated areas. The French contended that timber delivery from cuttings in the great German State Forests was one of the most practicable methods for Germany to effect reparations when considering Germany's present difficulties. The Belgians and Italians supported the French but the British withheld their agreement on the political grounds mentioned.

The failure of agreement on the "supervision over the State Mines of the Ruhr" was due to much the same reasons as the failure of agreement concerning the question of "supervision over State Forests". The British held that any attempt at "a supervision over the State Mines of the Ruhr"

would be followed by social consequences of the most grave character. Also the proposal of taking over "surplus receipts" from these Mines would aggravate social difficulties. The French held on the other hand that their proposal was simply a coercive measure for forcing coal and coke deliveries up to the amounts demanded by the Reparation Commission and that the "supervision" feature would not become effective unless Germany deliberately defaulted in the delivery of the amounts required. There is some feeling that the amount of coal demanded on reparation account has been in excess of Germany's capacity to supply; that there has been unnecessary delay in the rehabilitation of the mines in the French devastated areas and that the very much lower price of Ruhr coal than French coal and not the question of available supply has been a motive for demanding coal from Germany at the present figure. The Belgians supported the French but the British withheld their agreement.

The result of the failure of the London Conference is to throw the whole question back to the Reparation Commission. In view of the tenseness of French public opinion at this time it is particularly difficult to find a solution.

The Belgian Government which, at the time of the Bankers Conference, supported the moratorium idea against the French is now faced with apparently insurmountable obstacles vis à vis Belgian public opinion, as any continuation of this past policy would lead to the isolation of Belgium from France which might have a disastrous effect on the present very liberal Belgian Government. There is also a decided Belgian feeling that their geographical position forces them to join France in any measures the latter may take against Germany for assuming radical action on the part of France and her taking over a control of the occupied German territory, Belgium would find her economic position completely throttled and at the mercy of France. Belgium considers a direct contact with Germany necessary to her economic life and this she can only maintain by keeping control of her sector of the occupied area, so long as France's threatening attitude is maintained. For the foregoing reasons it is obvious that in the event of a vote being forced by the British before the Commission on the moratorium question, the Belgians will side with the French notwithstanding my conviction that the present Belgian Government regards a moratorium as the only solution. I would scarcely venture a guess as to what the Italian position would be under present conditions if a vote on the moratorium question were pushed in the Commission. However, assuming the Italians were lined up with the British, the vote on the moratorium question would be a tie in which event and under Article 437 of the Versailles Treaty the French President would have an additional and decisive vote.

Bemelmans, the Assistant Belgian Delegate, who was in London during the conference of the Prime Ministers acting as principal adviser to the Belgian Prime Minister, Theunis, has just returned to Paris and tells me that Theunis did everything possible to avoid a break-up at London. Sir John Bradbury, the British Delegate, in subsequent conversations

confirmed Bemelmans' statements. Bemelmans says that Theunis in the last days of the conference made the following offers as a basis of compromise:

(a) Belgium would agree to accept German Government six-months drafts guaranteed by the three German D Banks instead of cash payments up to a value of 210 million gold marks. In other words, these drafts would cover all cash payments due by Germany on reparation account (under the existing schedule of payments) for the months of August, September, October and November, 1922, to the whole amount of which Belgium is entitled under her priority".

(b) Belgium, as a second and a more important concession, offered accepting a reduction of her priority by a total of 210 million gold marks provided France would forthwith accept a moratorium for German cash payments for the months of August, September, October and November 1922.

Belgium has received todate of her 2 milliard gold mark priority approximately 1,250 million gold marks. Under "(b)" Belgium's outstanding balance on account of her priority would be reduced to approximately 540 million gold marks.

The "(a)" Belgian offer was opposed on the broad and very sensible grounds that the demand for the D Bank guarantees was entirely unjustified and would be refused. Theunis then suggested that the German Government support the D Bank guarantees of the German drafts handed over to Belgium by ear-marking an equivalent sum of Reichsbank gold reserve; and, with a tacit agreement on his part, that if it was possible to reach a final settlement of the reparation question in November through the medium of the Bankers Conference or otherwise, Belgium would agree to throw the German drafts back into the general pool, or practically cancel the drafts.

Due to the acrimony of the discussion concerning Articles 7 and 8 of the enclosure (referred to above) it was impossible to reach any agreement at London through the Belgian proposed concessions.

Bradbury tells me that he feels it would be futile at this time to force the moratorium issue before the Reparation Commission, as the only result would be a repetition of the London fiasco, and he therefore wishes to reach a compromise on another basis which will give a breathing space for a few months. All were worried at Poincaré's threat of immediately convoking the French Parliament, for if carried out it would have crystallized French public opinion to the Poincaré thesis. Any precipitant action of the Commission on the moratorium issue would result in convening the French Parliament and the effort of all on the Commission is to avoid this contingency. The French Cabinet at its meeting on August 16 announced that "there was no immediate necessity for convening Parliament" and the impression was given that such step would be suspended until the action of the Reparation Commission was clear. I believe the saner element in the French Government fully realizes that there is enough "political clap-trap" in the whole

performance today without interjecting the French Parliament into the situation, and that even Poincaré does not want it assembled.

The Commission at its meeting today, unanimously adked Bradbury and Mauclere to go to Berlin for the purpose of entering into informal conversations with the German Ministry in an endeavor to find a solution of the present difficulty, it being understood that upon the completion of their conversations they will return to Paris and advise the Commission as to the appropriate line of action to be taken in the premises. The public announcement of their approaching visit will be issued within the next couple of days and is designed to have a quieting influence on French public opinion. Their mission to Berlin can hardly be accomplished within less than ten days and this in itself should give time for calmer counsels to prevail. As the Commission on August 14 notified the German Government that the question of the August 15th reparation cash payment was "held in suspense pending further consideration of the German official request for a moratorium", the question of a "default" in cash payments will not arise until after the return of Bradbury and Mauclere. In the meantime the Germans have no payments to make on this account.

Bradbury and Mauclere are of the opinion that a possible solution in the present emergency is in sight through a certain manipulation or guarantee of the Reichsbank gold reserve. I do not intend to imply that their views coincide, but my view is that Poincaré by agreeing to Mauclere's joining Bradbury on the Berlin mission is an indication of a compromise being in sight.

Bradbury in a personal talk told me he thought that the German Government in these troublous times would agree to the physical transfer of the Reichsbank gold to the Bank of England, there to be held ear-marked to the credit of the German Government. With the gold so deposited, Bradbury was hopeful of working out a plan something along the line of Theunis' "(a)" plan mentioned above, which would carry the situation until November without undue prejudice to any change in ownership of the German gold. He did not go into details but appeared hopeful of getting agreement with Mauclere and the Germans along these lines. Before finally agreeing to go to Berlin Bradbury received assurances from the German Government that his visit would be "welcomed", which to my mind is significant.

It is particularly interesting and, in my judgment, important to note the growing interest during the last few days in Europe to the proposal made at London to hold another interallied conference in November. The provisional compromise in sight is designed to hold the situation until November. The importance of the proposed meeting in November from our point of view is emphasized by repeated reference in official sources to the fact that "by that time all the allied representatives who have been appearing before the American Debt Refunding Commission will have completed their mission in America and returned to Europe and be in a position to report to us". So far I can get nothing concrete, and while I may be overly suspicious, I, nevertheless, sense an earnest endeavor in certain quarters to another effort at setting up a united allied front to the American debt

question in November.

The references in the foregoing letter relating to happenings during the London Conference must be accepted with a certain reserve as the information given on that subject in this letter is based on hearsay. I am, however, personally satisfied that my report is substantially correct.

I enclose herewith, as being of possible interest to you, Reichsbank Weekly Statement for week ending 31st July 1922, Document Berlin 896.

Faithfully yours,

James A. Logan

JAL/BD
2 encls.

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

PRIVATE FRENCH CLAIMS ON GERMANY.

SOME FANTASTIC EXAMPLES.

(From a Berlin Correspondent.)

The course taken by French policy in regard to arbitration cases has long been causing great anxiety in German official quarters. It was noticed that immediately after the fixing of the reparations demands at 132 milliards of gold marks France began energetically to press special claims in the Franco-German Mixed Arbitral Tribunals under articles 296 and 297 (e) of the Versailles Treaty. These articles deal principally with claims of nationals of the Allied and Associated Powers for injuries and losses, of whatever nature, to their properties, rights, and interests within German territory caused by special war measures. This was not intended to cover damage inflicted by actual warlike operations outside Germany, and even damage suffered in Germany is represented in the reparations total by a sum of nearly 700 million gold marks. In pressing these additional claims despite this, and continuing to press them yet more urgently, France is acting with the expressed purpose of speeding up the extraction of judgments which can be extracted from Germany as long as possible everything in the form of payments that can possibly be extracted.

The tendency has become more marked since there has begun to be talk of moratoriums and of the reduction of the burden of reparations. The last Note of M. Poincaré to the German Government gives clear expression to the French view that the instalments for the clearing offices and arbitral tribunals must be paid the moment they fall due, quite irrespective of the reparations demand. If this contention is admitted no moratorium which may be agreed upon between Great Britain and France in London will be of any assistance to Germany, since it would have the result of placing Germany completely at the mercy of France in respect of the clearing office and arbitration demands which she is unable to meet, and would deprive the other Allies of all effective means of putting pressure on France through the Reparations Commission or in any other way; in other words, it would place Germany virtually in a worse position.

Typical Claims.

In these circumstances it is worth while to examine the present situation of the Franco-German arbitration proceedings to see in detail what are the French claims. Almost the worst element in these claims for Germany

is that no one knows what their total amount will be, how many more claims will be presented on the determination of the first ones, and what amounts will be definitively passed. Despite the nominal fixing of the burden of reparations, Germany is still far from having any conception of the demands that will actually be made against her. The claims brought into court up to June 1 totalled over 7.6 milliards of francs, which, with the franc at something over 50 to the pound, makes over 400 milliards of paper marks. But, according to French authorities, it is hoped to raise these claims up to 50 to 60 milliards of francs. The following instances will illustrate the nature of the demands.

The Société des Quais, Docks et Entrepôts of Constantinople, with offices at 43, Boulevard Malesherbes, Paris, originally put in a claim against the Ottoman Government for dock dues for the German steamers General and Corcorado and three other small ships in their establishment at Constantinople during the war. The Ottoman Government declared its willingness to submit the legal question to arbitration and demanded a deposit of the probable court fees. Then it occurred to the French company that the Germans had been the actual masters of the Bosphorus, and they accordingly entered a claim against the German Reich; for this, naturally, there was no question of a deposit to cover charges. The French company claimed no less than 3,877,389,799 francs, or, at the present exchange, about 200 milliards of paper marks—three times the total number of marks expended by the German Government on the whole of the four years' war operations. The grotesque total was arrived at by demanding one franc per ton for each of the first eight days and a 10 per cent increase in the charge per ton per day for every further day. The ships were held fast in Constantinople by the blockade year after year, and so this fantastic total emerged.

A French motorist was compelled by the outbreak of war to leave his motor, of the value of 6,000 francs, in Germany. He demanded a new motor as compensation, together with 40,000 francs for lost opportunities of earning during six years, calculating that the utilisation of his motor in the war would have brought him in this sum. He was adjudged entitled to 180,000 francs by the arbitration court.

The Case of Alsace-Lorraine.

The president of one of the arbitration courts, Professor Mercier, of Lausanne, is of great assistance to France in her arbitration policy. He was nominated to the post at the instance of the French Government, although he had declared during the war that it was impossible for him to judge impartially between France and Germany. M. Mercier has ruled that though under the Peace Treaty the nationality of Alsace-Lorraine changes as from November 11, 1918, it must be regarded as virtually French from the day of the outbreak of the war. Consequently every measure adopted by Germany in

Alsacians or Lorrainers if touched French subjects. With the aid of this fiction the French Government was enabled to carry through a wide propaganda in Alsace-Lorraine for the presentation of claims for damages against Germany over and above the reparation demands, and up to the present it has managed to bring up the number of these claims from 711 to 7,020. Alsacians and Lorrainers who took up German war loan now demand their money at 1.25 mark to the franc. The cattle which under a Federal law were commandeered in Alsace-Lorraine, as in the rest of Germany, the sheeps' wool, the copper and brass must now be restored to Alsace-Lorrainers in francs at the pre-war rate of exchange but at present-day prices, although at the time of confiscation they received compensation in German currency at the statutory assessment.

The churches of the town of Colmar are claiming 12,000 francs as the equivalent of lost collections, as for military reasons the bells were not permitted to be rung during the war. The city of Strasburg is demanding 84,200 francs because the ascent of the cathedral tower was forbidden during the war, so that admission fees and postcard sales were brought to a stop. Every sort of claim has been pushed forward by the French, and in addition to the 7,020 claims from Alsace-Lorraine there have been 1,700 outside Alsace-Lorraine and 740 arising out of pre-war agreements.

Only in one instance has the French Government refused to pass a claim from a peasant of Alsace-Lorraine. This man claimed compensation from the Germans for a watch stolen by the Allies from a son of his who had fought on the German side and been captured. This claim was disallowed on the ground that nothing of that sort had happened among the Allies. On the other hand, the French passed on a claim from an Alsatian who had completed his period of

military service in Germany in the nineties and now claimed a substantial sum as loss of earnings in the years served.

It is no secret that the results of the first claims are being awaited in France in order to hand in further claims on the strength of the experience gained. Special efforts are being made to secure that industrial losses in the actual war zone and outside Germany shall be subject to this arbitration procedure. The result of this would naturally be to swell the sums claimed very substantially, and French experts envisage figures in the neighbourhood of 50 to 60 milliards of francs. The German view is that damage suffered on former enemy territory is entirely covered by the reparations payments, and that a payment of 40 million gold marks per month on account of arbitration and clearing-house claims is just as impossible as the 50 million gold marks of reparation payments.

AFTER FIVE DAYS, RETURN TO
FEDERAL RESERVE BANK OF NEW YORK
15 NASSAU STREET
NEW YORK, N.Y.

attached to file 8/11/22

COPY.

Mcl

Green
Paris
Dated August 21, 1922.
Received Noon.

Secretary of State,
Washington,

325. August 21, 3 P. M.

B -- 742. Miscellaneous reparation receipts August
12th to 19th Luxemburg coal 143,607 pounds sterling credit Belgium
reparation recovery act July. 478,000 pounds sterling retained
by British Government under March agreement against army costs.

Logan.

WHITEHOUSE.

WSB.

CONFIDENTIAL

Paris, 24 August 1922,
18 rue de Tilsitt.

Subject : Austrian Reparation Question.

My dear Mr. Secretary,)S

Due to the Austrian crisis the Reparation Commission, in particular the British Delegation, is pushing for an early adjustment of Austria's reparation position. The question has not yet formally appeared before the Commission but there has been certain informal negotiations which have been carried on which it is believed will be of interest.

I enclose herewith two proposals : "A" and "B", for dealing with claims against Austria for reparation and the connected question of Relief Advances, both of which have been drawn up by the British Delegation on the Reparation Commission.

A. This proposal involves three separate decisions by the Reparation Commission, and a letter to the Powers holding Relief Bonds. It assigns to Austria a sum of 500 million gold crowns for reparation, in addition to the value of the property already transferred by Austria; it makes the first payment on account of the above mentioned sum payable in 1942, and the last payment in 1951; and releases the assets and revenues from the reparation charge until 1942. On the assumption that this is done, it is proposed that the Reparation Commission would then write a letter on the lines of the attached draft to the Relief Powers requesting them to suspend until May, 1942, their charge upon and control of the assets and revenues of Austria, and to postpone until the same date their claims for the principal and interest of Relief Bonds.

Under this arrangement the Relief Bonds would in 1942 again become a prior charge to the amount assigned for reparation, and no payment for reparation could be made until the capital and interest of all the Relief Bonds had been paid. You will observe that the sum of 500 million gold crowns bears interest from May 1921, at the rate of 5% per annum; thus in 1942 the total amount owing for reparations would, with accumulated interest, amount to 1 milliard gold crowns.

B. This proposal assigns to Austria as payment of reparation only the value of the property "which has been transferred by Austria under the Treaty of St. Germain to the Allied and Associated Powers or any of them for which Austria is entitled to a credit on reparation account, less the cost, as approved by the Reparation Commission, of any Allied Armies of Occupation payable by Austria under the said Treaty".

In other words, by this decision, Austria would be deemed to have already met the reparation debt and the charge of the Reparation Commission in respect of such debt, and in respect of the amount "Advances to Austria" would cease. As in proposal "A", the Reparation Commission would then write to the Powers holding Relief Bonds informing them there was no longer reparation charge against Austria, and asking them to declare that for 20 years their charge upon and control of the assets and revenues of Austria should not be operative, and to postpone for the same period their claims for the principal and interest of Relief Bonds.

Proposal "A" could, unless some unexpected difficulty arose, be passed through the Commission with practically no delay. Some points might arise as to increasing the amount mentioned (500 million gold crowns), and as to the control or supervision of Austria's assets and revenues during the period of 20 years' suspension.

The Italian representatives are, I am informed, in agreement in principle with "A", and therefore this solution could be reached quickly. It is, of course, apparent to everyone on the Reparation Commission that Austria is not in the least likely to be able to pay the amount assigned for reparation, or probably anything between 1942 and 1951, the more particularly as she would first have to pay the equivalent of some 125 to 130 million dollars to meet the Relief Bonds. In brief, "A" is merely "window dressing", but has the important merit of meeting the Italian point of view, namely, that public opinion in Italy would not permit the Government to release Austria from all further claim for reparation, however important the aspect might be of Italy eventually receiving any payment. It is also probable in the Italian mind that in the event of a possible Allied Conference in November to discuss the whole question of interallied debts, (a "possible Allied Conference in November" of which I hear constant reference to) their opportunity for bargaining would be considerably diminished if prior to such a Conference they had deprived themselves of the right to claim "C" Bonds in payment of their share of hypothecated Austrian reparation. The same arguments would probably influence some of the Succession States, but insofar as the procedure within the Reparation Commission is concerned, the attitude of the Succession States, apart from Italy, is not vital, as both the enclosed proposals can be put into execution by a majority vote.

Both the British and French representatives, I am informed, are prepared to support proposal "B", which is an expression of what they regard as the most reasonable course for the Allied Powers to take. This proposal, however, at the moment, is opposed by the Italian representatives who; not without some basis, point out their having with great difficulty got the Italian Government to agree to reparation payments being postponed until 1942. It is awkward and perhaps impossible for them to get the Italian Government to agree to wipe out reparations as proposed in "B". The French and British representatives, however, after hearing the Italian point of view, prepared to ask the Reparation Commission to adopt proposal "B", and, Of course, they will continue to endeavor to obtain Italian agreement. The British and French representatives realize, however, that if the Italian opposition to "B" is maintained there may be, owing to the many opportunities under the Treaty of St. Germain of raising technical objections, prolonged delay in reaching a decision, and even the possibility of no decision at all being arrived at.

As regards the Powers holding Relief Bonds, the British and French delegates do not anticipate serious difficulties in obtaining their agreement either to proposal "A" or "B". While under "B" the Reparation Commission extinguishes its claim against Austria, it was still thought advisable in communicating with Relief Powers to adhere to the term of 20 years as their period of postponement, on the ground that several Relief Powers had passed legislation limiting the suspension to 20 years, and that any alteration in this particular might involve interminable delay. It was possible that some of the Powers holding Relief Bonds may desire some form of control or supervision of the assets during the period of suspension, but it is hoped to obviate the necessity for this, or, at any rate, to eliminate any provision which will prevent Austria having a free hand to utilize her assets and revenues to the best advantage of her own reconstruction.

I am informed that the Austrian Government has been informally approached through British channels for an expression of opinion as to whether they desire a settlement following the "A" or "B" plan. No reply has as yet been received.

Attention is invited to the fact that the enclosures are all in "draft" form; that they have only been discussed informally by the various Delegations; and that the proposed solution has in no sense of the word been formally presented to the Commission.

I am sending copy of this letter, under confidential cover, to the American Minister in Vienna, so that he may be fully informed as to the plans under consideration, and thus be in a position to make such comments as he may desire to the Department.

Faithfully yours,

Secretary of State,
Washington, D.C.
U. S. A.

James A. Logan, Jr.

JAL:G

Encl.

AUSTRIAN SHARE OF DEBT.

(Draft) DECISIONS OF THE REPARATION COMMISSION.

I. DECISION FIXING AMOUNT OF DEBT.

The Reparation Commission in pursuance of the provisions of Article 179 of the Treaty of St. Germain CONSIDERING that it is unnecessary to assess the total amount of the damage done to the civilian population of the Allied and Associated Powers for which Austria is liable to make compensation and that the Austrian Government has waived the opportunity to be heard as to the amount of the claims for such compensation AND TAKING INTO ACCOUNT (pursuant to the provisions of paragraph 12 (b) of Annex II to Part VIII of the said Treaty) (1) the actual economic and financial position of Austrian territory as delimited by that Treaty, and (2) the diminution of its resources and of its capacity for payment resulting from the clauses of the same Treaty, ASSIGNS to Austria, as the part payable by Austria of the debt referred to in Article 179 of the said Treaty, the sum of five hundred million gold crowns increased by a sum equal to the total value of the properties transferred by Austria, less the cost, as approved by the Reparation Commission, of any Allied Armies of Occupation payable by Austria under the said Treaty PROVIDED ALWAYS that nothing herein contained shall operate as a release to Germany of any obligation imposed upon her under or in pursuance of the Treaty of Versailles.

The above amount is exclusive of the value of restitutions effected or to be effected in execution of Article 184 of the Treaty of St. Germain, and no credit will be allowed to Austria in respect of such restitution.

II. DECISION FIXING SCHEDULE OF AUSTRIAN PAYMENTS.

The Reparation Commission has in accordance with Article 179 of the Treaty of St. Germain fixed the time and manner for securing and discharging by Austria the part of the debt assigned to her by Decision No. of the Reparation Commission bearing even date with this decision as follows, that is to say -

a) The sum of five hundred million gold crowns shall be discharged by ten equal annual installments of each, whereof the first shall be due and payable on the 1st day of May, 1942, and the remaining nine respectively on the first day of May in each of the succeeding nine years ending with the year 1951, the said annual installments being calculated so as to comprise interest at the rate of 5 per cent per annum from the 1st May 1921 on the capital amount for the time being unpaid.

b) So much of the said part of the debt as is equal to the total value of the properties transferred by Austria less the cost approved by the Reparation Commission of any Allied Armies of Occupation under the Treaty of St. Germain shall be deemed to have been discharged on the date when the said Treaty came into force.

The Reparation Commission reserves the right to require Austria to issue and deposit bonds in pursuance of paragraph 12 (c) of Annex II to Part VIII of the Treaty of St. Germain, and also to determine all questions relating to the amounts of any such bonds and the time and mode of payment of principal and interest thereon, and the security therefor, and generally all other questions relating thereto.

III. DECISION EXCEPTING AUSTRIAN ASSETS FROM LIEN FOR REPARATION PAYMENTS UNTIL 1ST MAY 1942.

The Reparation Commission PURSUANT to the powers conferred upon it by Article 197 of the Treaty of St. Germain HAVING REGARD to the date fixed by Decision No. of even date for the first payment in cash by Austria on account of reparation AND WITH a view to enabling Austria to utilize her assets for her economic and financial reconstruction EXCEPTS the assets and revenues of Austria as at present existing and as the same may from time to time be composed or created, up to the 1st May 1942, from the cost of reparation under the said Treaty PROVIDED that nothing herein or in the Decisions of even date Nos. and contained shall prejudice or affect the rights of Powers which have lent money to Austria under the terms of the document known as "Advances to Austria" or operate to release from the charge for the cost of reparation under the said Treaty the assets and revenues of Austria as the same may be constituted on the 1st May 1942.

SUGGESTION FOR COVERING LETTER FROM THE REPARATION COMMISSION TO ALL
RELIEF POWERS.

(For Proposal A.)

-----oO-----

I am instructed by the Reparation Commission to transmit for the information of your Government, as holders of Austrian Relief bonds, the text of three decisions taken on _____, fixing the amount of the Austrian reparation debt so far as it still remains to be paid at five hundred million gold crowns; making the first instalment on account of such debt payable on May 1st, 1942; and releasing the assets and revenues of Austria until that date from the charge for reparation payments. These decisions suspend until May 1st, 1942, the operation of any provisions of the Note "Advances to Austria" dated May 20, 1920, which might be considered to apply to the recovery of reparation payments. The Commission, however, desires to point out that, as the third decision expressly declares, nothing in any of these decisions affects the rights of holders of Austrian Relief bonds, or, in particular, their priority over the costs of reparation.

In order to enable Austria to take adequate advantage of these decisions and to utilize her assets during a period of approximately 20 years in the best interests of financial and economic reconstruction, it would appear highly desirable and indeed absolutely necessary for the holders of Austrian Relief Bonds to agree to suspend until May 1st, 1942, their first charge upon and control of the assets and revenues of Austria, as specified in their Bonds and in the Note "Advances to Austria", to the same extent as that to which the charge for reparation payments has been suspended, and to postpone to the same date their claims for the principal and interest of the Relief Bonds.

The Commission understands, unofficially, as I stated in my letter of August 4, that your Government are prepared to suspend their claims under the Relief Bonds until 1942, provided, as is now assured, that the priority of the claims is not prejudiced. On this assumption the Commission would be glad if your Government, at their earliest convenience, could notify the Austrian Government direct of their agreement to the terms of suspension and postponement proposed in the second paragraph of this letter.

The Commission would be grateful if you could provide them with a copy of your Government's communication to the Austrian Government.

The decisions of the Reparation Commission, which I know have the honor to transmit to you and the action now suggested with regard to Relief Bonds in no way prejudice the decisions of the Commission which I transmitted to you on August 4.

I am, etc.,

SECRETARY GENERAL

12. 8. 22.

AUSTRIAN SHARE OF DEBT(Draft) DECISION OF THE REPARATION COMMISSION FIXING THE AMOUNT OF DEBT

The Reparation Commission in pursuance of the provisions of Article 179 of the Treaty of St. Germain CONSIDERING that it is unnecessary to assess the total amount of the damage done to the civilian population of the Allied and Associated Powers for which Austria is liable to make compensation and that the Austrian Government has waived the opportunity to be heard as to the amount of the claims for such compensation, AND TAKING INTO ACCOUNT (pursuant to the provisions of paragraph 12 (b) of Annex II to Part VIII of the said Treaty) (1) the actual economic and financial position of Austrian territory as delimited by that Treaty, and (2) the diminution of its resources and of its capacity for payment resulting from the clauses of the same Treaty.

ASSIGNS to Austria, as the part payable by Austria of the debt referred to in Article 179 of the said Treaty a sum equal to the total value of the property which has been transferred by Austria under the said Treaty to the Allied and Associated Powers or any of them for which Austria is entitled to a credit on reparation account, less the cost, as approved by the Reparation Commission, of any Allied Armies of Occupation payable by Austria under the said Treaty PROVIDED ALWAYS that nothing herein contained shall operate as a release to Germany of any obligation imposed upon her under or in pursuance of the Treaty of Versailles.

SUGGESTION FOR COVERING LETTER FROM THE REPARATION COMMISSION TO ALL
RELIEF POWERS.

I am instructed by the Reparation Commission to transmit for the information of your Government, as holders of Austrian Relief bonds, the text of a decision taken on , fixing the part of the Reparation Debt to be borne by Austria. It will be seen that the amount assigned to Austria is deemed to have been already met and, therefore, no claim by the Commission against Austria in respect of the reparation debt remains outstanding. As a further result of this decision, such provisions of the Note "Advances to Austria", dated May 20th 1920, as might be considered to apply to the recovery of reparation payments automatically cease to operate. The Commission, however, desires to point out that nothing in this decision affects the rights of holders of Austrian Relief Bonds or releases Austria from the charges in respect of the said bonds.

In order to enable Austria to take adequate advantage of this decision and to utilise her assets in the best interests of financial and economic reconstruction, it would appear desirable and necessary for the holders of Austrian Relief Bonds to take action. The Commission understands unofficially, as I stated in my letter of August 4th, that your Government are prepared to suspend their claims under the Relief Bonds for twenty years provided, as is now assured, that the priority of the claims is not prejudiced. On this assumption the Commission ventures to suggest that your Government, at their earliest convenience notify the Austrian Government that they agree that for twenty years their first charge upon and control of the assets and revenues of Austria, as specified in their bonds and in the Note "Advances to Austria" shall not be operative and that for the same period their claims for the principal and interest of the Relief Bonds shall be postponed.

The Commission would be grateful if you could provide them with a copy of your Government's communication to the Austrian Government.

Secretary General.

16.8.22.

Endrean Logan 8/25/22

CONFIDENTIAL

Paris, 24 August 1922.
18 rue de Tilsitt.

Subject: Austrian Reparation Question.

My dear Mr. Secretary:-

Due to the Austrian crisis the Reparation Commission, in particular the British Delegation, is pushing for an early adjustment of Austria's reparation position. The question has not yet formally appeared before the Commission but there has been certain informal negotiations which have been carried on which it is believed will be of interest.

I enclose herewith two proposals: "A" and "B", for dealing with claims against Austria for reparation and the connected question of Relief Advances, both of which have been drawn up by the British Delegation ~~and~~ ^{on} the Reparation Commission.

A. This proposal involves three separate decisions by the Reparation Commission, and a letter to the Powers holding Relief Bonds. It assigns to Austria a sum of 500 million gold crowns for reparation, in addition to the value of the property already transferred by Austria; it makes the first payment on account of the above mentioned sum payable in 1942, and the last payment in 1951; and releases the assets and revenues from the Reparation charge until 1942. On the assumption that this is done, it is proposed that the Reparation Commission would then write a letter on the lines of the attached draft to the Relief Powers requesting them to suspend until May, 1942, their charge upon and control of the assets and revenues of Austria, and to postpone until the same date their claims for the principal and interest of Relief Bonds.

Under this arrangement the Relief Bonds would in 1942 again become a prior charge to the amount assigned for reparation, and no payment for reparation could be made until the capital and interest of all the Relief Bonds had been paid. You will observe that the sum of 500 million gold crowns bears interest from May, 1921, at the rate of 5% per annum; thus in 1942 the total amount owing for reparations would, with accumulated interest, amount to 1 milliard gold crowns.

B. This proposal assigns to Austria as payment of reparation only the value of the property "which has been transferred by Austria under the Treaty of St. Germain to the Allied and Associated Powers or any of them for which Austria is entitled to a credit on reparation account, less the cost, as approved by the Reparation Commission, of any Allied Armies of Occupation payable by Austria under the said Treaty".

In other words, by this decision, Austria would be deemed to have already met the reparation debt and the charge of the Reparation Commission in respect of such debt, and in respect of the amount "Advances to Austria" would cease. As in proposal "A", the Reparation Commission would then write to the Powers holding Relief Bonds informing them there was no longer reparation charge against Austria, and asking them to declare that for 20 years their charge upon and control of the assets and revenues of Austria should not be operative, and to postpone for the same period their claims for the principal and interest of Relief Bonds.

Proposal "A" could, unless some unexpected difficulty arose, be passed through the Commission with practically no delay. Some points might arise as to increasing the amount mentioned (500 million gold crowns), and as to the control or supervision of Austria's assets and revenues during the period of 20 years' suspension.

The Italian representatives are, I am informed, in agreement in principle with "A", and therefore this solution could be reached quickly. It is, of course, apparent to everyone on the Reparation Commission that Austria is not in the least likely to be able to pay the amount assigned for reparation, or probably anything between 1942 and 1951, the more particularly as she would first have to pay the equivalent of some 125 to 130 million dollars to meet the Relief Bonds. In brief, "A" is merely "window dressing", but has the important merit of meeting the Italian point of view, namely, that public opinion in Italy would not permit the Government to release Austria from all further claim for reparation, however important the aspect might be of Italy eventually receiving any payment. It is also probable in the Italian mind that in the event of a possible Allied Conference in November to discuss the whole question of interallied debts, (a "possible Allied Conference in November" of which I hear constant reference to) their opportunity for bargaining would be considerably diminished if prior to such a Conference they had deprived themselves of the right to claim "C" Bonds in payment of their share of hypothecated Austrian reparation. The same arguments would probably influence some of the Succession States, but insofar as the procedure within the Reparation Commission is concerned, the attitude of the Succession States, apart from Italy, is not vital, as both the enclosed proposals can be put into execution by a majority vote.

Both the British and French representatives, I am informed, are prepared to support proposal "B", which is an expression of what they regard as the most reasonable course for the Allied Powers to take. This proposal, however, at the moment, is opposed by the Italian representatives who, not without some basis, point out their having with great difficulty got the Italian Government to agree to reparation payments being postponed until 1942. It is awkward and perhaps impossible for them to get the Italian Government to agree to wipe out reparations as proposed in "B". The French and British representatives, however, after hearing the Italian point of view, prepared to ask the Reparation Commission to adopt proposal "B", and, of course, they will continue to endeavor to obtain Italian agreement. The British and French representatives realize, however, that if the Italian opposition to "B" is maintained there may be, owing to the many opportunities under the Treaty of St. Germain of raising technical objections, prolonged delay in reaching a decision, and even the possibility of no decision at all being arrived at.

As regards the Powers holding Relief Bonds, the British and French delegates do not anticipate serious difficulties in obtaining their agreement either to proposal "A" or "B". While under "B" the Reparation Commission extinguishes its claim against Austria, it was still thought advisable in communicating with Relief Powers to adhere to the term of 20 years as their period of postponement, on the ground that several Relief Powers had passed legislation limiting the suspension to 20 years, and that any alteration in this particular might involve interminable delay. It was possible that some of the Powers holding Relief Bonds may desire some form of control or supervision of the assets during the period of suspension, but it is hoped to obviate the necessity for this, or, at any rate, to eliminate any provision which will prevent Austria having a free hand to utilize her assets and revenues to the best advantage of her own reconstruction.

I am informed that the Austrian Government has been informally approached through British channels for an expression of opinion as to whether they desire a settlement following the "A" or "B" plan. No reply has as yet been received.

Attention is invited to the fact that the enclosures are all in "draft" form; that they have only been discussed informally by the various Delegations; and that the proposed solution has in no sense of the word been formally presented to the Commission.

I am sending copy of this letter, under confidential cover, to the American Minister in Vienna, so that he may be fully informed as to the plans under consideration, and thus be in a position to make such comments as he may desire to the Department.

Faithfully yours,

Secretary of State,
Washington, D. C.
U. S. A.

Personal

August 25, 1922.

Dear Logie:

Please regard this as most private and confidential. I have received your letter of August 11 (also yours of July 28), and at the moment will only comment upon that part which relates to the supposed discussion between the British and French Governments in regard to the treatment of the debts. I have a strong hunch that something of that sort did take place; in fact, I have seen half-formulated proposals which came directly from the British Government and which indicated that at one time there was a strong disposition on the part of the British to build up a working basis between all the debtors for rather forcing our hand. The scraps of evidence of this that I have received from time to time disturbed me a good deal, and through some of my banking friends in London I tried to exert some influence against that sort of a program. The last development, however, has in my opinion been most unfortunate from the British point of view. I refer, of course, to Balfour's note. Lest you may not get the whole text, I am sending you with this a copy of a statement, just out the day before yesterday, by Secretary Mellon, which of course is a direct answer to Mr. Balfour's statement about the way in which these loans were made.

Nothing since the war ended has exerted so adverse an influence upon sentiment here in regard to the debts as that of Balfour's note. People seem to have regarded it as disingenuous and as being sort of a back-handed method of approaching our Government. Knowing that this was coming along is the reason why I asked you to keep me posted on anything that developed in regard to debts that might come to your ears.

August 25, 1922

Now, most confidentially, I want to ask you about another matter. I have heard whisperings, principally from journalistic sources, that there is the making of a great scandal in connection with the expenditure of the reconstruction funds in the devastated regions of France. One newspaper man of importance told me that he had heard that it would outdo anything that was disclosed in connection with the Panama Canal scandal. Can it be possible that anything of this sort is impending? It would do the French tremendous injury in this country, and, personally, I cannot credit the story; but they say it is being investigated now by some newspaper men and that they may make quite a tale of it. Please regard this as most confidential.

My best to you and Basil.

Yours sincerely,

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

BS.MM

enc.

ACKNOWLEDGED

SEP 8 - 1922

R. S.

JAMES A. LOGAN JR.

Paris, 25 August 1922.
18 rue de Tilsitt.

My dear Ben:-

In my letter to you of August 18, 1922, concerning the London Conference and the general reparation situation, on page one, second paragraph, the following statement appears:

"The most extensive areas of 'State Forests' in Germany are in Bavaria."

I found on further examination of the question that this statement was not altogether correct. Of the 4,255,000 hectares of State Forests within the confines of Germany, 837,000 hectares represent such areas in Bavaria alone. Therefore, Bavaria has not the "most extensive areas". Nevertheless, the area in Bavaria is so substantial that the British objection was based on the general premises indicated in my letter.

We have not as yet received definite information as to the outcome of the Bradbury-Maunclere negotiations in Berlin, though the Press reports of this morning are pessimistic of any solution having been reached. However, this will be cleared up in the public press.

From preliminary reports received from Berlin it appears that Bradbury endeavored to get the Germans, themselves, to offer some concession to Poincare on the question of the "supervision" of the coal and timber deliveries. I do not know whether the Germans refused to compromise, or whether Maunclere declined to accept an offer of compromise. This I will clear up when I have definite information. As yet I have nothing definite concerning the transfer of Reichsbank gold for guaranteeing German Government drafts to be accepted by Belgium under her priority on account of the August, September, October, and November, reparation cash instalments referred to in my letter of August 18. I am informed, however, that the original plan of putting this gold in the Bank of England is changed, the Bank of England being substituted by the Bank of Belgium in Brussels.

I am enclosing herewith as being of possible interest to you copy of report which I addressed to the Secretary of State on August 24, concerning the Austrian Reparation Question.

I am also enclosing herewith the following, viz:

Berlin Document No. 931. Financial Position
of the Reich for the period ending Aug. 10, 1922.

To Benjamin Strong, Esq.

J. A. L. Jr.

Page 2

✓ Paris Document No. 923. Berlin Exchange during the
week ending August 6, 1922.

✓ Annex No. 1284 bis. Comparison of Fiscal Burden
in Germany and France.

✓ Les Debts Interallies et Reparation, with Compli-
mentary Note.

Faithfully yours,

J. A. L. Jr.

JAL/G

Encls.

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

CONF - MD

Green
Paris
Dated August 26, 1922.
Received 243 p.m.

Secretary of State,
Washington.

332-August 26, 4 p.m.

B-745. Miscellaneous reparation receipts since August 19th
under article eight, paragraph one, March financial agreement war
material credit France 425,574 francs; receipts February credit
Belgium 360 francs. Logan.

WHITEHOUSE

HPD