

September 4, 1922.

RUSSIAN CURRENCY "REFORM".

There has been a good deal of talk recently of a possible restoration of Russian currency to a gold basis; and various optimistic reports have appeared in the press.

It has been stated that the total gold value of all the paper at present in circulation is only a few tens of millions of dollars; that the Russian Government has that amount of gold in its possession, and that a conversion could, therefore, easily take place.

The facts of the case appear to be as follows:

The total paper issues up to July 1, 1922,	308,000,000,000,000 rubles
amounted to	
During July	120,000,000,000,000 "
were added, making	
the total August 1st	428,000,000,000,000 "

The official exchange rate, which is calculated by comparing to-day's price index with that of 1913, modified by making an allowance for the depreciation of gold in the world markets as measured by the general world index of prices, is approximately 5,000,000 rubles to the dollar. Thus the gold value of 428 trillion rubles is estimated at \$85,600,000.

This gives a per capita circulating medium for the present population of Russia (of approximately 100,000,000) of 86 cents gold.

The pre-war circulation for the 160,000,000 population of that period was, in round numbers:

Paper	1,600,000,000 rubles
Specie	400,000,000 "
a total of	<u>2,000,000,000 "</u>

or $12\frac{1}{2}$ rubles gold per capita,
which equals \$6.44.

The present business of the country is, therefore, being carried on with a per capita circulation of less than one-seventh of the pre-war circulation.

Prices have risen far more rapidly than currency has depreciated. According to the official price index for August, 1922, prices are 7,006,494 times higher than in 1913; while the ruble has fallen from 2 to the dollar to 5,000,000 to the dollar, or 2,500,000 times. Prices, therefore, have risen

nearly three times as fast as the ruble has depreciated, and to restore business activity to its pre-war volume (with the pre-war credit machinery working normally) would require something like three times the pre-war per capita circulation. Credit machinery has, however, largely broken down, and unless it were restored, the per capita circulation required to bring business back to its pre-war level would probably be even more than three times the pre-war amount.

The business of the country has sunk to a very small fraction of its former volume; but the rise in prices out of all proportion to the depreciation of the currency indicates that even for this small business the present volume of currency is inadequate; and makes it difficult to see how activity can even be maintained at its present low level without enormous new issues. And when one thinks of any possible revival of business even to one-half or one-third of its pre-war volume, the hopelessness of bringing it about by any mere juggling with the currency becomes **overwhelmingly** apparent.

To raise business to say one-third of its pre-war level would probably require a currency, not of \$86,000,000, but \$500,000,000 to \$600,000,000, and even then the condition would not be stable unless the whole public finances of the country were put into such a shape as to produce a balanced budget and remove the necessity for further uncovered emissions to cover deficits.

RUSSIAN BANKING OPERATIONS.

I. STATE BANK.

The new Russian State Bank was organized December 12, 1921. Its original capital, wholly subscribed by the State, was 2,000 milliards Soviet rubles, later increased to 5,750 milliards.

Under the original statute the bank is prohibited, except in a few special cases, from making long-term loans (defined as loans for longer than three months), but the necessity for longer loans principally for agricultural purposes has led to the deposit with the bank by the Commissariat of Finance (out of new emissions of paper) of a varying sum as needed for the specific purpose of making such long-term loans. This sum, on August 1, 1922, reached 67,726 milliards, of which 58,842 milliards had been advanced in loans.

In addition, apparently for the purpose of increasing the funds available to the bank for its current business, the Commissariat of Finance has placed with it on long term deposit, a sum which, on August 1st, reached 74,000 milliards.

All other deposits, including a small amount in foreign currencies, amounted on August 1st to 19,413 milliards.

Setting aside the 67,726 milliard fund, ear-marked for long-term loans, the bank has had for its other operations:

Its capital	5,750	milliards
Its deposits	19,413	"
The special deposit of the Commissariat of Finance	74,000	"
a total of	99,163	"

The disposition of this sum is indicated in a statement of assets and liabilities of August 1st, as follows:

Loans (other than the long-term loans from the special fund)		30,013	
Advances (deposits, advances of circulating capital, etc.) to local sections of the bank		20,680	"
Discounts		3,080	"
Various properties acquired (by direct purchase, in repayment of loans, etc.):			
Foreign coin and currency	4,235		
Foreign bills of exchange	893		
Precious stones	4,782		
Other commodities	3,159	13,069	"
It had cash on hand		21,223	"
	Total,	88,065	"

The balance of 11,000 milliards is accounted for by various smaller sums due on various accounts, such as

Sale of commodities not yet fully paid for	2,942 milliards
Advances on current expenses	1,286 "
Sundry payments, etc.	5,471 "

On April first the corresponding items were:

Loans (other than long-term)	4,729 milliards
Advances to local sections	3,712 "
Discounts	-
Properties acquired	617 "
Cash	420 "
Sundries	953 "
Total,	10,431 "

Assuming that all the loans by the Bank itself, all the advances to its sections, all the discounts, all the sums paid for property acquired, and all other advances, have gone for the purpose of assisting industry to rehabilitate itself, then the Bank, between April 1st and August 1st, has assisted industry to the extent of 68,462 milliards, or at present rate of exchange, \$13,692,000.

If we contrast this with the 450,000 milliards, or \$112,500,000 at the then rate of exchange, which the Supreme Council of National Economy last April estimated as the sum urgently required by industry, it becomes apparent that the assistance rendered by the Bank has thus far been insignificant.

The total assistance to agriculture, as indicated by the outstanding loans of August 1st, has also been insignificant.

Long-term loans from the special fund	58,872 milliards, or \$11,774,000
Short-term loans	1,558 " 312,000
Total,	12,086,000

II. THE CONSUMING CO-OPERATIVES' BANK.

It was the original intention of the organizers of the State Bank that its aim should be to assist State industries, the co-operatives, and "private" industries, giving preferential treatment in the order named.

Almost from the beginning, however, it became apparent that the capital of the bank was too limited to give adequate assistance even to the first of these three classes of enterprise, and steps were taken for the establishment of a second bank which should care for the interests of the co-operatives.

These co-operatives, of which there are a large number in Russia, are divided into two classes: Consumers' co-operatives and producers', the former being by far the most important.

Early in this year a new bank called the Consuming Co-Operatives' Bank was organized. It began operations in April. Its objects were announced to be to serve the needs of the consumers' co-operatives by credit and banking operations. Its capital of 1,300,000 gold rubles was subscribed by

- | | |
|--|---------------------|
| 1. The State Bank | 300,000 gold rubles |
| 2. Consumers' co-operatives
of Soviet Russia and
allied Soviet Republics | 1,000,000 " " |

The statement of Assets and Liabilities as of August 1, 1922, shows that the bank has had at its disposal the following sums:

	<u>Soviet rubles</u>	
Capital		365 milliards
Deposits:		
Ordinary	1,353	
Term	<u>989</u>	2,342 "
Borrowed on securities		<u>389</u> "
		3,096 "

It has utilized its funds mainly as follows:

Loans to co-operatives		1,152 milliards
Advances to its local sections		504 "
Advances to correspondents		22 "
Subscription to State "Corn Loan"		302 "
Sundry advances		127 "
Property acquired:		
Securities	26	
Commodities	<u>161</u>	187 "
Total,		<u>2,294</u> "

On August 1st it had cash on hand and deposits with the State Bank 749 milliards

The above total of loans, advances, etc., of 2,294 milliards,† even on the assumption that all of it has been so used as to be of direct assistance to the business of the co-operatives, can not have gone very far in helping them. The gold value at present exchange is only \$459,000.

III. PRIVATE BANK.

There has also been organized a "private" bank with headquarters in Moscow. No data as to its operations are at present available, but rumor has it that its activities are very limited.

September 8, 1922.

My dear Logie:

Since writing you on August 25, I have received your letters of August 11, 18 and 25, with the various enclosures, all of which I have read with much interest. The kaleidoscope has been turning much more rapidly than at almost any time, and hardly any comment on your letters and the enclosures is now up to date, but I am very glad to have them, and particularly to get the text of the documents in some of these matters, not only for my information but for reference hereafter as a matter of record.

It is high time that I sent you something in the way of news of what has been going on here, and I will ask you to hold my letter in close confidence, although possibly Basil might care to read it.

As to business. The country is on the eve of a possible activity of business, which might develop into a boom. This development was arrested for a while by reason of the coincidence of three really serious strikes. The strike of the anthracite miners completely stopped production. Our reports indicated that less than one per cent. of the normal hard coal production was made during the months of May, June, July and August. The bituminous production, of course, was larger because of the very considerable unorganized mining fields. The third strike, which started July first, involved the railway shop workers who do all the repair work on locomotives and cars, and affected about 450,000 men, most of whom went out. The result was not only a cessation of distribution of hard coal, but almost as complete a reduction in distribution of bituminous coal, because the strike situation on the railroads and a certain amount of sympathetic interference with traffic by the operating men blocked up many of the mines from even delivering coal which they could produce. A large section of the bituminous operators have effected settlements with the strikers and are now in operation. The entire anthracite field of Pennsylvania is being put back into production, really as the result of a personal and urgent request by the President. I think we are going to get through the winter without a serious coal famine, but stocks are very dangerously depleted and there is still considerable question as to whether the Northwest can be supplied. All of this of course has slowed down production in business to some extent, but as the coal distribution now increases, I am expecting to see business grow more active, especially in view of the fact that in volume we have one of the largest crops ever produced in the country; and as to most of the crops the prices are satisfactory. Wheat is the most unsatisfactory as to price, which is a great disappointment to the Northwest.

As to the financial situation. There is some hardening of money rates because of the increased commercial demands. Our great problem in the Federal Reserve System is to prevent an unwise employment of our lending power in a way which would be simply inflationary and which would result in marking

Sept. 8, 1922.

up prices and living costs without any corresponding increase in production of benefit to the people generally. The Treasury has an enormous refunding operation to put through during the next eight or ten months, and while we have no doubt of its complete success, it may be that the terms will appear to be a little disappointing from the standpoint of those who think the Government should get credit for less than it is worth.

As to politics. The situation is exceedingly mixed and very unsatisfactory. Most of the progressive Republican candidates have won out in the primary elections, and some of them are extreme radicals. The bonus bill has passed both Houses of Congress, and is now in conference. It is expected to be reported out within the next few weeks, after the tariff bill is reported out by the same conference committee, and then when the conference bill is passed, the President is expected to veto it promptly. I have no doubt whatever that he will. There has been an outpouring of criticism of the Administration and the President because of his management - or as some people express it, because of his interference with the strike situation. He would have been just as severely criticised for inaction had he done nothing, and on the whole I believe he has acted with the most high minded purposes and with a very sensible regard for his public duties. There have undoubtedly been mistakes made all around. I think possibly the only point where criticism may be justified is in the sweeping character of the injunction just obtained by the Attorney General from the United States Supreme Court, restraining the striking railroad men from various types of activities. The text of the order, which of course is only temporary pending argument, is so sweeping as to appear to violate the provisions of the Constitution as to freedom of speech and assembly, and the Attorney General, (as well as the President,) has been vigorously denounced for going so far.

There is still uncertainty as to Governor Harding's reappointment to the Federal Reserve Board, and if the President does appoint him, there is certain to be a good stout fight against his confirmation by a group of Senators who charge him with all sorts of mismanagement during the deflation period.

A couple of weeks ago when I was in Washington, the President accepted an invitation from the family for a dinner party and evening's entertainment at Bethesda. We had a grand time. There were just twelve there, including the President, Secretary Mellon, Senators Wadsworth, Curtiss and Edge, and Speaker Gillett, Ellis Dresel, Bill Phillips, Nemo, Waddy, Bill Williams and myself. The party did not break up until after midnight and all had a good time.

I finally succeeded in refurbishing the ice box, and the house is beginning to look like its old self. My best to you and Basil. Tell the old scout to write to me when he gets time.

Sincerely,

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

BS.MM

JAMES A. LOGAN JR.

ACKNOWLEDGED

OCT 6 1922

B. S.

Personal and Confidential.

Paris, 8 September 1922.
18 rue de Tilsitt.

My dear Ben:-

I enclose herewith, as being of ^{porcell} interest to you, the following documents, viz:-

Loose in file

- Document No. 924 - Reichsbank Weekly Statement, Week ending 7 August 1922.
- Document No. 944 - The Balance Sheets of the Great German Banks for the Financial Year 1921 - Press Comments.
- Document No. 945 - The German Floating Debt.
- I. S. No. 950 - Situation of the Austro Hungarian Bank on July 23, 1922.
- I. S. No. 952 - Subscriptions to the Share Capital of the New Bank of Issue.
- I. S. No. 953 - Statement concerning the General situation in Austria during July, 1922.
- I. S. No. 965 - Official Communique concerning the establishment of the Devision Zentral.
- I. S. No. 973 - Situation of the Austro-Hungarian Bank on July 31, 1922.

Faithfully yours,

James A. Logan Jr.

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

JAL/G
Encls.

JAMES A. LOGAN JR.

ACKNOWLEDGED

OCT 6 1922

B. S. -

Personal and Confidential.

Paris, 8 September 1922.
18 rue de Tilsitt.

Subject. The Reparation Crisis of August, 1922.

My dear Ben:-

Due to the failure of the London Conference of Prime Ministers to reach agreement on the reparation question in the first weeks of August, 1922, the question was returned to the Reparation Commission. The formal question to be considered was the reply to be given to the German Government's written request of July 12, 1922, for a complete moratorium of reparation cash payments. By unanimous agreement in the Commission it was decided that Sir John Bradbury and M. Mauclere should go to Berlin for the purpose of studying the situation on the ground and upon their return to Paris to submit such recommendations to the Commission as in their judgment would best meet the situation. I enclose herewith as Exhibit A a copy of the First Draft Minutes of the 314th Meeting of the Reparation Commission held in Paris on August 26, 1922. This meeting was for the purpose of hearing the report and recommendations of Sir John Bradbury and M. Mauclere after their return from Berlin. The statements of Bradbury and Mauclere as they appear in these minutes constitute their formal report.

Exhibit B herewith is a copy of the "First Draft Minutes of the 315th Meeting of the Reparation Commission on August 30, 1922", which is the record of the formal hearing of the Germans on their request of July 12, 1922, for a moratorium. Paragraph 52 of this enclosure contains a record of the statement which I made at this meeting, the reasons for which are explained below.

Exhibit C herewith is a copy of the "First Draft" of the Minutes of the 316th Meeting of the Reparation Commission held on August 31, 1922, which includes the record of the formal debate within the Commission on the German request; the rejection of the proposal of Sir John Bradbury for an immediate complete cash moratorium by a majority vote; and finally the adoption by the Commission of the so-called "Belgian-Italian Compromise" proposal by unanimous vote of the Commission.

Exhibit D herewith is a copy of the Decision No. 2119 of the Reparation Commission and the letter of the Commission to the German Government transmitting the Decision, dated August 31, 1922. This Decision was that referred to hereinafter as the "Belgian-Italian Compromise" resolution.

The situation resulting from the failure of the Prime Ministers Conference in London in the early days of August, 1922, was most difficult. The French people who have been thoroughly bamboozled, quite generally supported the Poincare thesis. I do not mean to imply that certain intelligent groups of French opinion did not appreciate the real situation, but the majority was with Poincare. Poincare went to London with a stiff back and apparently opposed to almost any form of compromise. As a matter of fact, the breaking point of Lloyd George and Poincare on the "control" of timber and coal deliveries would not have presented the insurmountable obstacle to agreement, had the personal relationship between the two Prime Ministers been cordial, I am satisfied that if any other two people had been negotiating, some form of compromise could have been reached acceptable for both parties, and without particular injury to Germany. However, no compromise was reached, and Poincare on his return to Paris gave every indication that he was willing to go to almost any extreme to get what he wanted even if, in the process, France was to be isolated, and even if he had to pull down the pillars supporting the European economic and financial temple, and let it all fall on the heads of an already badly shaken Europe. How much he was bluffing, or how resolute he was in his attitude, I am not able to judge.

On the other hand, the British, from what I gathered from Bradbury, fully appreciated the weakness of Poincare's position, but felt that it was perhaps unavoidable to let Poincare try out his policy in the face of their sulky disapproval in the hope that when Poincare had gone a little way on his independent policy the French people, feeling consequently the weakening of the franc, increased taxation, etc., would rise in their wrath and oust Poincare before too much harm was done.

The Belgians, under Prime Minister Theunis, followed a conciliatory and farsighted policy throughout the London Conference and the period when the question was before the Reparation Commission. In view of the divergence of public opinion in Belgium it took courage on Theunis' part to openly oppose the French thesis during the negotiations in the Commission. The French exerted every pressure to keep the Belgians with them. Delacroix told me that the French Ambassador in Brussels on two separate occasions complained of Delacroix' attitude to Theunis in the name of the French Government.

The Italians were apparently well rounded up to the British thesis from the start.

As regards my personal attitude during the negotiations of which some erroneous reference has appeared in the European and American Press, I have the following to say. The danger of a break between British and French on the reparation question had been apparent for months past. I fully realized that our Government did and does not want to get involved in this row. I know the delicacies of our foreign debt position. I also realized that the British have and will con-

tinue to try and involve our foreign debts in the reparation question, and that also they will constantly endeavor to use us in pulling their hot chestnuts out of the fire. The French on the other hand are not so keen about pulling us into the debate by reason of their suspecting an Anglo-Saxon type of mental process on our part in arriving at decisions on reparation questions. Nevertheless, the French never lose any chance of trying to show the Germans that the latter are faced by undivided opinion against them. I remained quiet during all the formal meetings of the Commission, with the exception of the remarks which appear in paragraph 52 of Exhibit A herewith. I also remained quiet during the unofficial meetings of the Delegates. I was however present during all the negotiations which was necessary to enable me to keep the Department advised.

My reason for making the formal remarks referred to were the following. When the Germans came into the meeting, the President, Dubois, in his introductory remarks, with a sweep of his hands to all seated at the table, including myself, made the general statement that the German Delegates "were here in the presence of the representatives of the Allied and Associated Powers signatory to the Treaty of Versailles". He made his gesture with great seriousness, and with a certain implication of individual reference. At the time all signs pointed to a failure of the Reparation Commission's negotiations, and independent action by France. This could only lead to a break of some importance in Franco-British relations. I did not deem it advisable to let any false impression rest in anyone's mind as to my status in the Commission, so after the Germans withdrew I made the statement which appears of record. At the same time I added that "The personal views of Mr. Boyden and myself on the general questions now under discussion appear in the past records of the Commission". I made this particular statement for at the time I had full knowledge of the provisions of the so-called "Belgian-Italian Compromise" resolution which contained an inference somewhat remote, but nevertheless there, that the interallied debt question had some direct connection with the reparation question. Mr. Boyden's recorded statements, which so well present the non-connection of the reparation settlement with the debt settlement, amply protect any allegation that in my unofficial capacity I had connived at an interjection of the debt question into the reparation question. I felt my statement to be the tactful way of protecting my position and much wiser than argument leading to unnecessary and undesired debate. I made the last personal remarks in emphasis of my unofficial status at the meeting and in an honest endeavor to exercise what influence I had in having the Commission reach "a unanimous agreement on the present question equitable to all the interests involved".

On August 31 there was an unofficial meeting in the morning which was acrimonious particularly between Bradbury and Dubois, with Delacroix and Salvago Raggi trying to make peace, and during the course of which I took no part. Dubois gave the impression of being much impassioned, which is saying a good deal, as he is only about five

feet high and, I judge, does not weigh over 115 pounds. While he said nothing openly about Delacroix, he nevertheless whispered in my ear: "Delacroix and the Belgians are traitors". Nothing being accomplished at the morning meeting, Salvago Raggi suggested having another informal talk at 4:00 o'clock in the afternoon as a final endeavor for reaching a compromise, and with the understanding that a formal meeting would be held at 4:30 o'clock, at which the various resolutions would be formally put to vote and the decision published.

At the 4:00 o'clock informal meeting Dubois announced that he had studied the so-called "Belgian-Italian Compromise" resolution, and that he declined to accept it and would vote against it at the formal meeting. Bradbury then said that at the opening of the official meeting he would press action on the resolution he had presented to the Commission before the London Conference of Prime Ministers according Germany a complete and immediate moratorium on cash payments, and on which the Commission had at that time decided to suspend action. Bradbury said, however, that he would not force a vote if Delacroix asked for consideration of the "compromise" resolution. Dubois said that he would propose a resolution that "no moratorium be accorded Germany", and argued that his resolution should be given priority in consideration over Bradbury's and the "compromise". Dubois' purpose in asking priority for his resolution was to embarrass the Belgians by forcing them to vote on the "moratorium" question before the "compromise" was before the meeting. After much discussion as to procedure, it was decided that Bradbury's resolution had priority, and that Delacroix could suggest that it be amended by the adoption of the "compromise" which Bradbury would accept in substitution for his, thus not forcing the Belgians and Italians into the open on the question of either "a moratorium" or "no moratorium". The informal meeting adjourned about 4:30 o'clock, the formal meeting having been postponed until 5:00 o'clock. I kept quiet during the foregoing.

I felt that Dubois was weakening, particularly during the afternoon debate, and would be glad to find a way out. Mauclere confidentially told me that he was doing all possible to influence the French Government to accept the "Belgian-Italian Compromise" and that both he and Dubois at the bottom of their hearts were fearful of the isolation of France if the "compromise" was not accepted by the French Government.

I personally felt that it would be most regrettable not to use every possible proper and personal endeavor to help reconcile the divergent views. Therefore, about ten minutes after the informal meeting was over I saw Dubois, telling him I came in a purely personal capacity and as his friend, and a friend of France, and that on this basis it occurred to me to suggest that it was not too late yet to reach a compromise acceptable to all concerned. I said that the simple solution in my mind was for him to get Bradbury to submit his (Bradbury's) resolution for "a complete moratorium" which Bradbury could sustain, but which all the others could formally reject, thus

largely meeting the French point of view. Delacroix could then submit the "Belgian-Italian Compromise" which, following the rejection of the Bradbury resolution, could be quite properly supported by Dubois. Dubois said he would go and see Poincare at once and find out what could be done. I spoke to Bradbury and Delacroix in a purely personal way on the foregoing. They agreed. The formal meeting was delayed until about 6:00 o'clock. In the meantime Dubois telephoned back to Bradbury his agreement to the proposed procedure, which was formally adopted about 7:00 o'clock.

The fact of my having made a statement at the formal meeting of the Reparation Commission on August 30th leaked into the Press, with the result that I was given some publicity by the British Press and London visitors which I in no way desired. The British who never miss the opportunity of drawing us into European questions made some endeavor to exploit "the beneficial effects of the presence of American unofficial observers in European conferences". Of course, I made no reply to the Press and, after cabling the statement of record I had made to Washington, left Paris, visiting some friends in the country. The affair has now died out of public interest.

I do not want to give any erroneous impression of the importance I attach to the "Dubois chat" on the afternoon of August 31. I have always remained of the impression that the French intended to back down at the last moment, for otherwise Dubois would not have asked for the half hour interval between the closing of the informal conference and the formal meeting of the Commission, and thus change the ordinary practice of having one meeting immediately follow the other. The fact that Poincare gave his approval to Mauclere accompanying Bradbury on the visit to Berlin after the London Conference, clearly indicated some hesitancy on Poincare's part to precipitate action. In addition, the adjustment of the clearing office controversy reached during the London Conference was another similar indication.

As I have written before, the August 31st, 1922, adjustment of the reparation question is only a stop-gap. My personal impression is that another crisis will develop towards the end of the year in which the interallied debt position and particularly our own will be featured. I can not forecast what the French attitude will be in the approaching crisis.

Faithfully yours,



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

JAL/G

Encls.

Decision 2119, August 31, 1922

"Belgian - Italian Compromise"

(Letter September 8, 1922)

In reply to the German request for a moratorium for the years 1922, 1923 and 1924, the Reparation Commission, while deferring formal action upon the moratorium until it should have completed its plans for a radical reform of German finances, agreed to accept, in payment of the cash instalments due August 15 and September 15, and, unless other arrangements are made, of the other instalments due in 1922, six-months Treasury Bills of the German Government, payable in gold and secured either by a guarantee acceptable to Belgium or by gold deposited in a foreign bank approved by Belgium.

Document 944 - The Balance Sheets
of the Great German Banks for 1921 - Press Comments
(Letter September 8, 1922)

Summary: -

Capital and reserves increased from 2.75 milliards in 1920 to 5 milliards in 1921.

Average dividend 12.6%.

Deposits 25 times those of 1913.

Loans to State on Treasury Bonds decreased; private loans increased.

Net profits shown on balance sheets small compared with actual profits.

Large secret reserves have been constituted by all the large banks.

The press is divided in attitude toward this practice.

I. S. No. 953

The General Situation in Austria

(Letter of Sept. 8, 1922)

During July Austria made her first really energetic attempt to help herself. The Seipel Cabinet proposed a program including an obligatory home loan, the creation of a new bank of issue and a reduction in the number of officials, all of which were adopted by the Parliament, in spite of some opposition. The Economic Commission worked out a plan of economies designed to reduce the budget estimates by 360 milliard crown.

Among the unfavorable factors may be noted the principle of adapting salaries to index numbers and the continuance of the food subsidies, although on a reduced scale.

Reparation Commission Annex No. 1532

Report of visit of Committee of Guarantees to Berlin,

June 18 - July 18, 1922

(Letter Sept. 9, 1922)

This is an extremely detailed report of the examination of German finances made by the Committee.

Budget 1922-23

In the expenditures of the ordinary budget, which are estimated at 67.4 milliard paper marks, the Committee suggests that items amounting to 2.1 milliards be postponed, reduced or covered by private funds. This saving is, however, small in proportion to the total of the ordinary budget. A further reduction of 3.158 milliards could be effected by the complete suspension of the amortization of the debt. Another method of saving would be by reducing the rate of interest on Treasury Bonds handed in to the Reichs-

bank and not re-issued to the public.

The Committee calls attention to the large appropriations for capital expenditures for railways and canals, and for placing telephone cables under ground, and suggests that an expert examination be made to ascertain whether these expenditures are really necessary at this time. In the opinion of the Committee, State participation in industrial enterprises should be suppressed. Another doubtful item is that of subsidies to the various States. Whether these are warranted could be determined only by a study of State budgets.

Alpha
COPY.

GREEN

Paris,
Dated Sept. 9, 1922.
Recd. 9th, 9 a. m.

Secretary of State,
Washington,

354, September 9, noon.

B-756. Miscellaneous reparation receipts since
September 2nd, \$48,252 dye stuffs to Belgium. Logan. Sept.
9, noon.

WHITEHOUSE.

EBS

ACKNOWLEDGED

SEP 30 1922

R. S.

JAMES A. LOGAN JR.

Paris, 15 September 1922.
18 rue de Tilsitt.

Personal and Confidential.

My dear Ben:-

Contrary to expectations held on August 31, 1922, when the Reparation Commission adopted the so-called "Belgian-Italian Compromise" resolution providing for the acceptance by Belgium of German Treasury Bills in settlement of reparation cash payments for the balance of this calendar year, the question has again become very acute.

A Copy of Decision, No. 2119, of the Reparation Commission dated August 31, 1922, which is the so-called "Belgian Italian Compromise" was enclosed in my letter to you of September 8. Delacroix and Bemelmans, representing the Belgian Government, were sent to Berlin by the Belgian Government to negotiate the guarantee behind the German Treasury Bills to be accepted by Belgium. It appears that on their arrival in Berlin they were first met by Bergmann who suggested a joint application on the part of Germany and Belgium to Great Britain for the latter to hand the Belgian Government the Belgian post-war reconstruction loan obligations held by the British Treasury as the guarantee contemplated by Decision No. 2119. Bergmann intimated to Delacroix that this suggestion was made on the suggestion of the British Government who were willing to offer such collateral. The proposal was rejected by Delacroix on the general grounds of French objection. As a matter of fact, Bradbury had previously told me that if such offer was not satisfactory to the French he felt the British Treasury would be quite willing to lend French obligations held by the British Treasury as security for the German Treasury Bills. The purpose of all this maneuvering of the British, which I considered very foolish, was obvious to all, including the Belgians. The Germans then suggested the guarantee of a consortium of German industrialists, and some time was consumed in conversation between the industrial leaders and Delacroix and Bemelmans on this subject. This guarantee was ultimately rejected by the Belgians for after conversation with Stinnes and Bemelmans, it developed that such guarantee was only to be forthcoming provided the Belgians surrendered to the German industrialists practically their entire share of reparation coal deliveries which the Belgians were naturally unwilling to do. The Belgians then pushed for a Reichsbank gold guarantee, but the Germans refused, claiming German public opinion would not tolerate a shipment of this gold outside the country, or even tolerate any direct ear-marking of the same on reparation account. The Germans finally suggested a Reichsbank guarantee without specific reference to the latter's gold reserve, and negotiations on this basis commenced with the Reichsbank officials. In the course of these negotiations it developed that the Reichsbank was willing to give the guarantee provid-

ed the Belgians simultaneously agreed, in the event of failure on the part of the German Government to meet payments on Treasury Bill due dates, to demand only one-third of the amounts due such date, postponing all payments on the remaining two-thirds: one-half thereof six months, and one-half twelve months after the due dates. From what I gathered this proposed arrangement, which in my judgment was not unreasonable, was tentatively approved by Delacroix and Bemelmans, but was rejected by Brussels.

Upon the failure of the Berlin negotiations, Delacroix and Bemelmans returned to Brussels and finally to Paris. In the meantime negotiations were undertaken directly in Brussels with the Germans. The Belgians first demanded a gold guarantee for the Treasury Bills to be deposited in the Bank of Belgium. For the reasons already given as to German popular feeling concerning the movement of the Reichsbank gold reserve, and the additional quite reasonable German feeling that gold once deposited in the Bank of Belgium was lost for good and all notwithstanding whether or not the German Government met payments on their Treasury Bills, the proposal was rejected by the Germans. Theunis at once followed by demanding 100,000,000 gold marks forthwith as guarantee for unpaid reparation instalments due on August 15 and September 15. This demand was couched in the nature of an ultimatum, requiring a reply not later than midnight September 15 (today).

The situation today is most complicated. I don't intend venturing any forecast as to future happenings on this account for I do not know how much bluffing is going on, and anyhow, the final outcome will be reported in the press before this letter arrives. I can only give the situation as I see it today.

Delacroix, who has been in conversation with Bergmann in Paris the last few days in a final endeavor to reach an agreement, informed me yesterday that his negotiations were practically deadlocked, with but little hope of settlement. He claimed that the Belgians, under the August 31 decision of the Reparation Commission could not accept the proposed conditional Reichsbank guarantee, and that the only alternative under the Commission's decision was the demand for a gold deposit in the Bank of Belgium which had been rejected by the Germans. He said he and his Government would continue negotiations as long as possible, but that in his personal judgment he would be forced on September 19 to formally report to the Reparation Commission Belgian failure to reach agreement with the Germans, and that this could only have the effect of reopening the August reparation crisis with its attendant serious complications.

Bradbury is very pessimistic as to the outcome of the present situation; he is particularly critical of the Belgian attitude in not standing by the British, and in not accepting and pushing French acceptance to the proposed Reichsbank guarantee. Bradbury holds that the Belgian demand for German gold deposit in the "Bank of Belgium" is improper and not contemplated by the Reparation Commission in its decision of August 31. This latter decision, after authorizing the liquidation of reparation cash payments due between August 15 and December 31

by six months German Treasury Bills, provided that, in default of agreement between Belgium and Germany as to other forms of guarantees, a "guarantee in the form of a gold deposit in a foreign bank as accepted by Belgium" could be demanded by Belgium. Bradbury's criticism of the Belgians is that the "Bank of Belgium" is not a "Foreign bank" as contemplated by the Commission, and is bitter in his recriminations against the Belgians who, in his view, under French pressure, have acted in bad faith. Bradbury claims that French influence in Brussels has thus met with success by laying the opening wedge to force the Reparation Commission to formally report Germany in default to the Allied Governments, thus requiring an immediate conference of Prime Ministers. Bradbury feels that at such Conference France will demand cancellation of British debts in exchange for French agreement not to indulge in independent sanctions against Germany. I personally have been somewhat disappointed at the recent attitude of the Belgians in this affair which was entirely unexpected.

Obviously affairs in Asia Minor have had no little to do with stiffening Poincare's attitude on the reparation question. France's position vis a vis Great Britain, and as assumed by Bradbury, was characterized by the latter in a personal chat with me as "blackmail of the Gauls". I only refer to this last statement as illustrative of the bitterness of the present situation. Bradbury intimated to me the day before yesterday that he would fight the French tooth and nail in the Commission on the question of formally reporting Germany in default. Today, he is not so sure that he can take the strong position originally contemplated. Apparently, in the interval, he had received some disconcerting advices from London, which I presume is indicative of the wabbling attitude of the British Government to happenings in Asia Minor and the necessity for French support in that situation. Bradbury is leaving tonight for London to consult with his Government as to the attitude to be taken by him in the event of the "formal default" question arising in the Commission. He intimated the intention, if forced to report Germany in default, to resign from the Commission immediately afterwards and to take up the cudgels for sane action in the treatment of reparation affairs in the public press. I presume on the Keynes' lines. I don't attach much importance to this last statement of his for he is in rather a nervous and strained condition. On the other hand, it is another indication of the tenseness of the present situation.

Mauclere told me that he had seen Poincare within the last few days and that Poincare had said in effect as follows:

"I want the Reparation Commission to perform its functions as laid down in the Versailles Treaty, and whenever Germany is in default to so report to the Allied Governments. I consider the attitude taken by the Commission during the last few months when actually in the presence of Germany's default, as defined by the Treaty, and in not so reporting to the Allied Governments, mere subterfuge and entirely inconsistent with their functions. If such practice is continued I will be forced to ignore

the Commission and act alone. On the other hand, if a formal report of default is received by my Government from the Commission, I am entirely prepared to discuss with my Allies the question of sanctions to be taken."

I have no means of verifying the accuracy of this hearsay, but it seems reasonable to draw the conclusion that Poincare wants an Allied conference at the earliest possible date, and that he has a thorough appreciation of the weakness of the British position due to the debacle of the latter's policy in Asia Minor.

The hopeful sign in the present situation is the fact that Herr Havenstein, the Governor of the Reichsbank, and Secretary of State Schroeder, left Berlin yesterday and are now in London for the purpose of discussing the guarantee question with the Bank of England. Bemelmans tells me that he is hopeful of a solution for the present question through this meeting. Bradbury tells me that the purpose of the Havenstein-Schroeder visit to London is to ask the Bank of England to give its guarantee for two-thirds of the amount of the German Treasury Bills, the Reichsbank offering the Bank of England gold security, and arranging the longest possible delay before their security is taken up by the Bank of England in the event of failure of the German Government to meet payments on the Treasury Bills due dates. The plan contemplates the Reichsbank arranging satisfactory guarantees direct with Belgium for the remaining one-third. While I do not know definitely, I gather that the Bank of Holland may be asked to participate in the operation. From its purely banking aspect, the proposed arrangement is perfectly sound; the Reichsbank can undoubtedly get satisfactory terms from the Bank of England and the Bank of Holland, and if the German Government ultimately meets payment on their Treasury Bills, the Reichsbank will get its gold back. However, there is such a strong political tinge to this operation that both Bradbury and Bergmann are doubtful of the attitude and support of the Bank of England in the affair. This doubt is also heightened by the understood view held by the Bank of England that it is unwise to support any reparation plan of financing which does not include a sane settlement of these questions.

As a further complication in the present situation, the Germans have not met the clearing office payment of two million pounds sterling to be made prior to September 15 as per the Allied agreement at the London Conference in August. Poincare's clearing office crisis and sanctions of early August so widely reported in the press were occasioned by the German demand for a reduction in the amount of the clearing office monthly payments from two million pounds sterling to five hundred thousand pounds sterling. Poincare's face was saved in London by the compromise agreed to there, providing for the payment of two million pounds sterling by September 15, with annulment as of that date of the Allied German Clearing Office Agreement of June 10, 1921. It was agreed in London in August last that new clearing office agreements by each Power would be negotiated subject to the approval of the Reparation

Commission, and enter into force December 15, limiting German cash payments on this account to not to exceed five hundred thousand pounds sterling per month. When thoughtfully considered it is found that under the last London arrangement the Germans actually had their monthly cash payments on this account reduced to five hundred thousand pounds sterling per month whereas, at the same time, Poincare won his point by the agreement of the Allies to the total payment of "two million pounds sterling" to which so much publicity has been attached. Poincare thus won the "two million pounds sterling" point in the public estimation but in doing so was forced to agree not to demand any payments for October 15 and November 15, and to accept five hundred thousand pounds sterling as of December 15, and thereafter. In other words, the German's demand for a reduction to "five hundred thousand pounds sterling" per month was accepted with the sole exception that the instalments due October 15 and November 15 had to be advanced before September 15. However, notwithstanding the London arrangement, which was a decided concession, the Germans have only paid five hundred thousand pounds sterling in August and just announce another payment limited to the same amount as of September 15.

Bergmann stopped in to see me today just before leaving Paris for the Hague. He was very much discouraged over the whole affair. He said that he sensed a decided weakening in the British attitude, and could not therefore make any estimate of what the outcome would be. He felt that this weakening in attitude was occasioned by Asia Minor happenings and a consequent desire on the part of the British for rapprochement of policy with the French; in other words, that the British might sacrifice their previous German position so as to obtain French support in Turkey. He referred to the differences of opinion held in the German Cabinet: as between Wirth and Hermes, and was apparently a partisan of Hermes in these dissensions. He was very much put-out by the publicity given in Berlin to the departure of Havenstein and Schroeder for London. He said the visit had been planned as a confidential one so as not to stir up the French press and French opposition to the proposed arrangement which, in his mind, was an entirely sound banking proposition. As a matter of fact, the report of the London visit, together with the outline of the proposed arrangement with the Bank of England was published in the Berlin press even before Havenstein and Schroeder had left Berlin. Bergmann said that in the event of the Commission making a report of "voluntary default" to the Allied Governments, he did not anticipate much in the way of sanctions on the part of the French, nor was he particularly afraid of anything the French would do in this line. On the other hand, he seriously predicted that within two weeks after such default was reported, the German mark would fall to ten thousand to the dollar. He said that such a fall would paralyse Germany and might lead to political and social consequences the extent and results of which he would not care to forecast. He emphasized this by saying that with the mark at the figure he anticipated, it would be impossible for Germany to finance essential imports, including the food supply, as were necessary for their population. I let Bergmann do all the talking.

Being a constitutional optimist, I am hopeful of some solution being reached by Havenstein and Schroeder in London. It may be that

the Banks of England and Holland while not directly guaranteeing the German Treasury Bills, and thus technically keeping clear of the political situation, will nevertheless find some means of financing a "German guarantee" satisfactory to the Belgians. All of this will have developed before this letter reaches you. The situation is however more tense than I have ever seen it and much more politics have been interjected into the reparation question than heretofore. Obviously, a reparation solution on the basis of the Havenstein-Schroeder proposition is only a stop-gap, and even if a successful solution is found in London, further discussions and perhaps a further crisis is only postponed for a few months. I personally attach considerable importance to the endeavor which is now going on between the French and German industrialists to reach some workable arrangement for deliveries in kind, as per the "Stinnes-Lubersac agreement" and the visit of the "Twelve German industrialists to the devastated regions". It may be that they can work out some business arrangements of sufficient advantage to the French to force a more conciliatory attitude on the part of the French Government to the general reparation question.

Faithfully yours,

John A. Logan Jr.

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

JAL/G

Green
Paris
Dated September 16, 1922.
Received 10:28 A. M.

Secretary of State,

Washington.

362 September 16, noon. B-763.

Miscellaneous reparation receipts since September 9th,

\$32,016 Luxemburg coal credit Belgium, postage receipts 466

francs credit Belgium. Logan.

WHITEHOUSE.

ERR

ACKNOWLEDGED

OCT 6 1922

B. S.

JAMES A. LOGAN JR.

Paris, 21 September 1922.
18 rue de Tilsitt.

Personal and Confidential.

My dear Ben:-

The reparation "crisis" referred to in my letter of September 15 concerning the "guarantee" of German Treasury Bills to be accepted by Belgium in settlement of reparation cash payments for the balance of this calendar year is now a closed incident.

The Reichsbank has guaranteed these six months Treasury Bills for payment on due dates and the Belgian Government has accepted this arrangement. The Havenstein-Schroeder negotiation with the Bank of England in London was successful. I have no authoritative information as to the detailed arrangements made in London, particularly, as to the security demanded for the Bank of England's support of the Reichsbank's guarantee of the six month Bills handed Belgium. It is reported, and I believe substantially accurately, that the arrangement provides that, as guarantee for the Bank of England's support for the payment of the Bills on due dates, the Reichsbank agrees to place fifteen million gold marks monthly (received from the German Government) at the disposition of the Bank of England during a period of eighteen months. I am told that the fifty million gold marks which the Bank of England at present holds for account of the Reichsbank has been put up as additional security. I also gather that the Bank of England has agreed to arrange for the acceptance under condition of other collateral than gold as security in the event of the guarantee being called. In other words, by the financial arrangement made in London, the Reichsbank has a good chance of working out from under the responsibilities of its present guarantee without undue prejudice to the position of its gold reserve, and the German Government has secured a delay of twelve months beyond due dates for the payment of the Treasury Bills if it desires to avail itself of this time. I also gather that our British friends in this financial operation reap a certain profit.

The result of the August reparation crisis and the London financing of the guarantee is: first, to give Germany a moratorium on all outstanding reparation cash payments during the remainder of this calendar year; and second, to definitely commit Germany to the payment of at least two hundred seventy million gold marks during the year 1923 on reparation account. As previously reported, I was informed both by the Belgians and the British at the time that Theunis' original proposal at the Prime

Ministers Conference in London, when offering to accept six months German Treasury Bills, carried with it a tentative agreement on the part of the Belgians that, if a settlement of the reparation question were reached before due dates, the Belgian Government was willing to "scrap" the German Treasury Bills they had received and accept the provisions of the general settlement. I asked Bradbury today if this was still the case, and he replied it was so according to the understanding he had had with the Belgians at the time, but however, the agreement was not in writing. As the agreement was not in writing, and as the Belgians in recent personal chats appear reluctant to discuss this phase, I am constrained to believe that the payments will be forced. However, this will develop later.

We now have a breathing space so far as cash payments on reparation account are concerned. In my judgment, this breathing space, or the present interval between reparation "crises", will be of short duration. The question now is, How much cash, if any, will Germany be required to pay on reparation account during the year 1923, and what is the affect of payments due on German Treasury Bills held by Belgium so far as general cash reparation payments for 1923 are concerned? You will remember that the seven hundred twenty million gold mark payment to be made in the year 1922 was fixed by the Reparation Commission on March 21, 1922 (See Annex 1352). This figure of seven hundred twenty million gold marks is a very substantial reduction of the figure of annual payments contemplated by the formal Schedule of Payments of May 5, 1921, and was only specifically adopted for the year 1922. Theoretically, and automatically, payments for 1923 should revert to the figures contemplated by the Schedule of Payments.

As soon as the discussion starts as to the basis of payments for next year we can anticipate another and new reparation crisis, the consequences of which may have a far reaching effect. All are now studying the position they will take on the question of next year's payments.

Bradbury just tells me that his present intention is to open up the new question shortly, and that he intends energetically pushing for a complete moratorium on cash payments to run for two years from January, 1923, together with a very substantial moratorium on deliveries in kind during the same period. He held that if some relief from reparation obligations was not afforded Germany with the very minimum of delay, the German situation would be past saving. He maintained that, if the internal price level in Germany reached the level of the present quotation of the gold value of the paper mark, it would be impossible for Germany to "dig itself out of its hole". In Bradbury's judgment, the internal price level in Germany which is gradually and rapidly creeping higher and higher has today reached about four hundred as compared with the

present quotation of from thirteen to fourteen hundred paper marks to the dollar. He felt that with the public announcement of a moratorium on the lines he indicated there would be a chance for the recovery of the paper mark to a figure approaching the internal price level, which would make a serious effort of the German Government to stabilize its budget possible of favorable results. On the other hand, if the present situation was allowed to continue, all hope of such stabilization would shortly disappear and that we could anticipate an Austrianized Germany with its attendant complications. He expressed the purpose of taking up the cudgels vigorously at the earliest possible date for his thesis. He intimated, however, that Asia Minor happenings, with its consequent Franco-British inbroglie, might have a bearing on not only the position he could take, but also would largely control the moment for opening this question. He was hopeful, however, that the Asia Minor situation would sufficiently clear up within the next ten days so as to free his hands to deal with the reparation question.

Bradbury indicated a desire, in the event of too much resistance by the French to his reparation thesis in the Commission, to force the whole reparation question before an International Conference "devoted exclusively to the consideration of the reparation question". He felt, on the other hand, that the French would oppose the International Conference basis and would endeavor to force the Reparation Commission to formally report Germany in voluntary default, so that an Interallied Conference might result, at which latter not only the reparation question, but the "European Interallied debt adjustment question would be featured by the French".

Delacroix tells me that he is searching for a compromise--his usual, and indeed useful effort in every "crisis". He had been talking with Bradbury who had told him much the same as he told me. Delacroix was, however, of the opinion that it would be difficult to find a definite solution of the reparation question without involving the "European Interallied Debt" position, and perhaps even the American debt position. Ours was purely a personal chat, but I took advantage of the occasion to discourage him from offering any compromise solution of the reparation question, either directly or impliedly, involving the American debt position, pointing out the absurdity of any endeavor in view of the definite and announced attitude of our Congress on this question. I feel that I did discourage him and that, for the present at least, this idea has gone out of his mind. However, dreams that the panacea for all European troubles rests on an "adjustment" of the American debt is the mental taint suffered by most Europeans, and is apt to reoccur with the frequency of varying heat levels found in intermittent fever, so I am not sure that the idea will not again return to Delacroix.

Most of the foregoing must be accepted as pure gossip. However, it is interesting as showing what is passing through the minds of our European friends preliminary to the opening of the new "crisis" with its attendant storms. My judgment is that the next "crisis" will start developing the latter part of October, and that the debt question will be interjected into the consequent conversations. My present view

is that the French for political reasons and gaining our support will endeavor to limit the discussion of the debt question to the "European position" exclusively. On the other hand, our British friends, while ostensibly sticking to the theory that the debt question is outside the reparation question, will, nevertheless, use every endeavor indirectly to interject the "international position" (including the American) into the situation. These views which I express with every reserve appear to me to be more or less confirmed by the recent trend of discussions in the League of Nations at Geneva. There appears, however, some grounds for hope of conservative French discussion and action on reparations during the approaching critical period. This is due to the wide publicity and support given by the French Press to the "benefits accruing to France" resulting from the Stinnes - Lubersac agreement, and similar agreements which are being entered into between the German and French industrials under the provisions of the so-called Loucheur - Rathenau Wiesbaden Accord. These arrangements are being very broadly supported by the French Press and if such support be maintained it should have a quieting effect during the approaching critical period which might help to further the reaching of a sensible and conservative solution.

On page four of my letter of September 15 I referred to the complication resulting from the German Government having advanced only one million pounds sterling (five hundred thousand pounds as of August 15 and five hundred thousand pounds as of September 15) on account of Clearing Office Balances instead of the two million pounds sterling to be paid before September 15 as fixed by the Prime Ministers in London during August. I have no definite information as to the French attitude on this question; little reference has been made to it in the Press, and I am inclined to feel that if the Germans make payments of five hundred thousand pounds sterling each on October 15 and November 15, the question will die.

The Directors of the French and British clearing offices, in pursuance of instructions received from their Governments, appeared before the Commission a few days ago for the purpose of outlining and receiving the approval of the Commission to the bases of the new Clearing Office Agreements to be entered into individually by the various Clearing Offices with the Germans. These two directors presented the following scheme to the Reparation Commission.

"Germany to pay each month on account of all Allied Clearing Office balances -	
Cash	£ 500,000
Bonds	<u>1,500,000</u>
Total	£ 2,000,000

The bonds to carry interest at 5% with a currency of 4 1/2 years. Upon the basis of the outstanding balances amounting to thirty six million pounds sterling. (an interesting figure as showing the outstanding balances on clearing office account still due by Germany) "Germany will have covered

this obligation in 18 months by
 Cash £ 9,000,000
 Bonds £ 27,000,000

The earliest in issue of these bonds will then have 3 years to run and the latest 4 1/2 years. At the end of a further period of 3 years Germany will have made further cash payments amounting to

£ 18,000,000

which will have been applied by the Allies in redemption of the earliest issues of bonds leaving later issues outstanding amounting to

£ 9,000,000

These later issues will mature from month to month over the final period of 18 months, or at the average rate of £ 500,000 a month, and they will be met out of the German cash payments. At the end of this period, 6 years from the date when the agreement came into force" (Joint Allied Clearing Office Agreement of June 10, 1921) "the Clearing Office balances owing to the Allies will have been paid in full, the bonds will have been redeemed and the Clearing Offices will have discharged their functions under Article 296."

The plan as outlined would be all right did it not involve what, if any, priority payments of Clearing Office balances have over Reparation payments. Obviously, Germany can not meet by far the full charge on both accounts. The Reparation Commission after considering the question held that the Prime Ministers at London, when giving the Reparation Commission authority to pass on future Clearing Office Agreements (Part X of the Treaty), had decided that reparation charges had priority over clearing office charges. The Commission then held that the proposal of the directors of the Clearing Offices was not in harmony with the decision of the Prime Ministers. The Reparation Commission, however, held that for "certain broad reasons" it was not advisable to wholly suspend Clearing Office payments until after the complete liquidation of reparations and adopted the view that from and including December, 1922, a "just equilibrium" between Clearing Office and reparation payments would be determined by the Commission, and the Clearing Office directors informed accordingly. No one ventured a formula for determining upon what this "just equilibrium" should be based. However, for the time being, anyhow, the Clearing Office directors' ambitious plan has been "put to sleep", and the question left open pending a settlement of the general reparation question for 1923.

Faithfully yours,

John G. Morgan

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

VHL

Green
Paris
Dated Sept. 23, 1922.
Recd. 3:00 P.M.

Secretary of State,

Washington, D. C.

370, September 23, 4 P.M. B-765.

Miscellaneous reparation receipts since September 16th,
123,598 pounds sterling Luxemburg coal credit Belgium. Proceeds
British reparation recovery act month August 637,000 pounds
sterling retained by British under terms March 11th agreement applied
against army costs. Logan.

WHITEHOUSE

VHL

Letter of September 29, 1922

Item 2167 a - Minutes of meeting of Reparation Commission on Sept. 26, 1922

Mr. Delacroix having declared that Belgium was satisfied with the Reichsbank guarantee and would definitely accept the German Treasury Bills to be remitted to her as payment for the instalments due up to the end of 1922, the Reparation Commission decided to transmit the notes to the Belgian Government, debiting Belgium and crediting Germany with the nominal amounts of the bills on the dates August 15 and September 15. The Chairman on behalf of the French Government entered a formal reserve in regard to the sufficiency of the Reichsbank guarantee.

Annex 1591, a. b. c. d. e. f.

Simply formal documents in connection with transmission of the notes.

* * * * *

JAMES A. LOGAN JR.

Paris, 18 rue de Tilsitt.
29 September 1922.

PERSONAL & CONFIDENTIAL

My dear Ben,

My last letter to you was dated 21st September 1922.

I enclose extracts from the minutes of the confidential meeting of the Reparation Commission of September 26, 1922 (Item 2167A) covering the debate within the Commission on the six months German Treasury Bills handed over by the German Government to the Reparation Commission and subsequently to the Belgian Government in payment of the August 15 and September 15 reparation cash instalments. Attached to these extract minutes is a copy of Annex 1591 a, b, c, d, e, f, and also a copy of the Belgian - German agreement concerning the Reichsbank's "solidaire guarantee" referred to in the minutes.

Starting with Article 6, page 2, is the text of a "formal reserve" "in the name of the French Government" "on the arrangement submitted". I may say in passing that the "formal reserve" made verbally by Dubois at the meeting itself, as recorded by stenographic notes, was much more definite and critical of the security offered by the Reichsbank "guarantee solidaire" than appears from the formal record herewith---the record having been corrected by Dubois. The reserve however is formal and justifies a critical examination, or demand for additional guarantee, by anyone contemplating purchasing the same. The French press, while not fully informed, has nevertheless "leaked" some of this "French reserve" on this question, and this was the reason for my confidential cautionary cable of September 27 to Washington on this subject.

The French are obviously suspicious of the details of the Havenstein - London negotiations for the Bank of England's support of the Reichsbank's guarantee. From newspaper reports published in Berlin, it would appear that this support may have been obtained with a certain prejudice to the question of "1923 reparation cash payments" by some German Government commitment of its gold receipts accruing during 1923, otherwise applicable to reparations. I have no definite information as to the arrangements effected in London by Havenstein. I enclose a clipping from the Manchester Guardian of September 27 which purports to show the results of the Havenstein negotiations and which is the basis of the French suspicion. I feel that the question of the German position incident to meeting these Bills in 1923 will appear in an acute form during the approaching reparation negotiations when considering

how much, if anything, Germany is to pay during 1923. On this account, I believe it is well for you to have the foregoing information and the attached documents.

Dubois has definitely resigned as President of the Reparation Commission. His successor has not yet been named. I am informed that the press reports of Jonnart being named as his successor are entirely unfounded. Jovenal of "Le Matin" is being talked about. He has great influence in parliamentary circles and has a position of a good deal of independence on account of his paper. All reports indicate him to be a good man and well qualified for the job. However, the name of Dubois' actual successor will probably be published in the press before this letter reaches you. Dubois tells me he resigns because Poincaré has given him "no personal consideration" and that he "declined to be the automaton of Poincaré's will". He is particularly bitter in that Poincaré, after having agreed in the late afternoon of August 31 to his acceptance of the so-called "Belgian - Italian Compromise", immediately afterwards came out attacking him.

Bradbury has drafted, in purely tentative shape, his proposals for the Commission's position on the reparation question for the period after January 1, 1923. His tentative plan (which will be undoubtedly changed) contemplates a complete moratorium of both German cash payments and deliveries in kind for a period of two years from January 1, 1923. It, however, provides that during this two year period Germany will effect restricted deliveries in kind subject to reimbursement of German industrials and coal mine owners by 5 Year German Treasury bonds given some, but as yet undetermined, priority by the Reparation Commission over general reparation charges. Delacroix tells me he opposed this plan, holding that if adopted, the industrials and mine owners will resist accepting 5 Year German Government bonds, and that practically, deliveries in kind will "peter out to zero". Bradbury apparently suggested that his difficulty might be overcome by the Allied recipient Governments endorsing such German bonds up to the value of deliveries in kind received by each, which might make them discountable and thus overcome the prejudice of German industrial and coal mine owners to them. Delacroix was energetically opposed to this, maintaining that it would be quite as simple for the Allied Governments to furnish the German industrials with their own Bonds. While I have not talked to the French, I imagine they will have the same objections, only in a more definite form, to the Bradbury plan. I have not had an opportunity to talk with Bradbury, but my guess is that it is more or less of a "ballon d'essai" designed to explore the French and Belgian position prior to the general opening of the reparation discussion.

Delacroix is of the opinion, which I share, that the British will not really open up the reparation question until the Asia Minor situation is cleared up. On this account, I do not anticipate the starting of the new crisis until some time in November, and it may even be postponed until later if the Brussels Conference be held the latter part of November or the first of December as now planned.

From what I gather from Delacroix and elsewhere, and notwithstanding the fact that the Government of France has just confidentially asked the Belgian Government to convoke a conference "on Reparations and Interallied indebtedness", both the Belgians and French are in a receptive mood to act so as to restrict the "Interallied indebtedness" discussion to the European phase of this question without the interjection of the American phase. I know nothing of the policy of our Government in this particular and simply report the possibility of thus restricting Brussels conversations to the European Interallied debt questions as being of possible interest.

Bradbury told me the other day, informally, that he proposed retiring from the Commission about November 1. I don't attach undue importance to this as he has said it before three or four times and then changed his opinion. He said, however, that he was thoroughly tired out, which is undoubtedly the fact, and that both he and his family felt it to be his duty to get out and rest. I am quite an admirer of Bradbury and the good which he has done, and will be very sorry to see him go. On the other hand, I feel that during the last few months by his appearance so much in the press in support of the British thesis he has gained such a deep rooted antipathy of the French that it would serve a constructive purpose to put both Dubois and Bradbury in the discard at about the same time and to start in with a new pack.

Faithfully yours,

Jean A. L. Jr.

JAL/BD
2 encls.

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

JAMES A. LOGAN JR.

Paris, 18 rue de Tilsitt.
30 September 1922. •

PERSONAL & CONFIDENTIAL

My dear Ben,

On the bottom of Page 4 and again on Page 5 of my letter to you of September 21st, I referred to the hearings before the Commission of the Directors of the French and British Clearing Offices on the question of the basis of the new Clearing Office agreements to be entered into individually by the various Governments with the Germans. I enclose herewith, (as Exhibit A), copy of a confidential letter dated September 25th, 1922, from the Reparation Commission to the Controller of the British Clearing Office, which shows the Commission's formal action on the matter. Similar letters were sent to the Directors or Controllers of the other Clearing Offices. I enclose herewith, as Exhibit B, copy of Annex 1560 of the Commission, which is interesting as showing the gold payments made by Germany on account of Clearing Office transactions during the period June 1920 - March 1922 inclusive.

I enclose herewith, as Exhibit C, copy of a resume of the report from the Financial Committee of the League of Nations which will be submitted to the League Council within the next few days on the financial measures proposed for Austria. I understand that the figure of the proposed loan, which is indicated in the attached memorandum at 520 million gold crowns has been raised to 650 million gold crowns so as to cover recent advances already made to Austria by Great Britain, France and Czecho-Slovakia. I am also informed that it is proposed to guarantee the service of this loan by the following Governments in the following percentages:

Great Britain	20%
France	20%
Italy	20%
Czecho-Slovakia	20%
Belgium	8%
Switzerland	7.5%
Leaving	4.5%

to be covered by subsequent guarantees of the States adjacent to Austria or by Banks.

To date the Governments of Great Britain, France, Belgium and Czecho-Slovakia have agreed to grant the foregoing guarantees. Italy has agreed subject to certain reserves on the question of the method of control of Austrian finance. Switzerland has not as yet signified its agreement.

With further reference to my letter of September 9th, enclosing you copy of the Committee of Guarantees report of the German financial position as of July 1922 (R.C. Annex 1532). I enclose herewith as Exhibit D copy of the formal letter of transmittal of the report by the Committee of Guarantees to the Reparation Commission (Annex 1532 ibis), as well as a copy of the "Note by the French representative on the Committee of Guarantees" (Annex 1532 o).

Faithfully yours,

Jan A. L. Jr.

JAL/BD
5 encls.

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

Letter of September 30, 1922

Exhibit A - Letter from Reparation Commission to Controller of British Clearing House

The Clearing House Directors are permitted to continue their negotiations with the German Government on the understanding that

(a) the amounts to be paid are subject to revision if the Commission so directs;

(b) bonds issued for Clearing House obligations are subject to the priority of the costs of reparation;

(c) all agreements will be submitted to the Commission for approval.

Exhibit B - Annex 1560 - Payments made by German Clearing Office between June 1920 and March 1922

	<u>Gold Marks</u>
Paid to Great Britain, France, Belgium, Greece and Spain (Details given in report)	508,821,659.35
Deficit between sums paid by Reich and reimbursement received by Reich from German nationals	<u>22,324,982.14</u>
Total Liability of Germany to March 31, 1922	531,146,641.49

Exhibit C - Austria - Resumé of Report of Financial Committee of League of Nations

Brief notes on reform of budget, establishment of bank of issue, control of Austrian finance, and foreign loan as suggested means for the restoration of Austria.

Exhibit D - Annex 1532 i bis - Report from Committee on Guarantees on fulfilment of conditions imposed by Reparation Commission when granting moratorium on May 31, 1922

I. Receipts

Committee estimates receipts for 1922-3 at 154,700,000,000 paper marks plus 60 to 70 milliards to be received from forced loan.

II. Expenditures

It was the opinion of M. Bemelmans and Mr. Boggis-Rolfe, whose joint report was approved by the Committee on Guarantees, that at least expenditures amounting to 2.1 milliards out of 67.4 milliards provided for in the ordinary and extraordinary budgets of the Reich should be suppressed; that an expert examination should be made to determine whether the proposed capital expenditure on railways, canals and telephones should not be reduced; that Government participation in industrial enterprises should be entirely abolished. Possible economies resulting from suspension of service of the consolidated debt (both interest and amortization), and postponement of indemnities to German nationals were also suggested.

Exhibit D (2) - Annex 1532 c - Note of the French representative on the preceding report.

This document being in French, a rather detailed digest is given, as follows: -

M. Mauciere, French representative on the Committee of Guarantees, does not agree with the majority of the Committee in their decisions upon certain questions brought up in the report of the Sub-Committee on Expenditure, and wishes, therefore, to bring these points to the attention of the Reparation Commission.

His main contention is that nothing has been done to meet the Reparation Commission's demand for a thorough-going budget reform and a vigorous effort for economy.

The German budget for 1922 has remained as it was when on March 21 the Reparations Commission demanded further reform. The nomination of a Committee on Economy promised by the German Government on May 28 has not been made. The German Government has made no reply to the Reparation Commission's letter of June 14 asking for assurances as to the application of the law relative to the independence of the Reichsbank.

The Sub-Committee on Expenditure and the majority of the Committee of Guarantees have been too moderate in their criticism of the German budget of expenditures. The extraordinary budget ought to be suppressed; there is no need for technical experts to pass judgment upon its items. Either they are items for expenditure which should be postponed or avoided entirely, or they are items which should be a part of the ordinary budget.

Furthermore, the service of both the amortization and of the interest of the consolidated debt should be completely suppressed, so long as the payments for May 5, 1921 are not assured, - with certain modifications in the case of certain small holders. The principle that the Reich should not fulfill its obligations to its own nationals until those to the Allies are met applies also to the indemnification of Germans for war damages and to payment to the Clearing Offices.

Extraordinary expenditures, amortization and interest on debt, indemnification of nationals, and payment to Clearing Offices, amounting to 76 milliards paper (20+23+1.3+32) according to the figures of the Sub-Committee of Guarantees should, therefore, be entirely done away with or radically reduced, if the "thorough-going" reform demanded by the Commission is to be effected.

COPY.

CONFIDENTIAL

Green
Paris
Dated September 27, 1922.
Recd 3:30 P.M.

Secretary of State,
Washington, D. C.

374, September 27, 5 p.m.

B - 767.

One. Reference our B - 764. Commission yesterday received the following German Government treasury bills with "absolute guarantee" of Reichsbank payable in London at Bank of England on order Belgian finance minister viz: A 4 bills 10 million gold marks each and one bill 7 million 4 hundred thousand gold marks falling due 15th February 1923 covering August 15th reparation, installment B 4 bills 10 million gold marks each and one bill 8 million 6 hundred thousand gold marks falling due 15th March 1923 covering September 15th reparation installment.

Two. Upon Delacroix formal statement guarantee accept this commission transmitted bills Belgian Government. Delacroix announced his Government proposed discounting bills forthwith thus disposing question referred to our B - 748 August 30.

Three. Germans will transmit later additional bills covering October November December reparation installments.

Four. Dubois at commissions formal session questioned sufficiency Reichsbank guarantee being evidently suspicious possible prejudice to 1923 reparation payments on account Havenstee Bank of England arrangements declaring formally that French Government viewed Reichsbank guarantee as insufficient security. While not attaching undue importance Dubois statement nevertheless suggest treasury and federal reserve be confidentially advised Dubois position. Logan.

WHITEHOUSE.

PERSONAL AND CONFIDENTIAL

September 30, 1922.

My dear Logie:

Your letter of September 15 has just reached me, and I have one of earlier date at my home which was accompanied by a mass of documents which I have not yet finished reading, but all of which are most interesting.

Since your letter of the 15th a good deal has transpired and the developments have been so rapid that your letter is out of date and I cannot very well comment upon it. The Belgians have not only gotten their notes from the Germans, but according to the best information I have, they have discounted them, and I am not sure that it is a good thing at all. Instead of Germany having one creditor, ~~the parties~~ to the Treaty of Versailles and represented on the Reparation Commission, they have as a result of the discount of the paper, (if it has been discounted,) probably a number of creditors, private banks and others, some of them possibly in neutral countries, and if difficulties are encountered by the German Government in paying the notes, then I presume the Reichsbank must meet them under the guaranty arrangements, because it is difficult to believe, on the one hand, that the holders will extend them, or, on the other hand, that the Belgian Government would be willing to take them back from the holders and itself extend them. However, my information in regard to the discounting of the paper may be incorrect.

I was very much impressed with the statement quoted at the foot of page three and the top of page four of your letter. It is significant as well as depressing. I have been an optimist as to a good many things that were taking place, particularly as to the extent to which the world, in material matters, was getting back to normal. The difficulty is with these human problems of selfishness, ambition, fear, timidity, and behind all of that, to some extent, misguided public opinions which lead governments to pursue mistaken courses.

Over here things are rocking along, with some improvement in business, with the strike situation pretty well cleaned up, and with an increasing interest in the outcome of the November elections. There have been indications recently that the Administration has gained strength; - Such, for instance, as the re-nomination of Hale in Maine, Calder in New York, and Frelinghuysen in New Jersey, for the Senate, without really serious opposition, except in Maine. Lodge had an overwhelming victory in Massachusetts. There also appears to be evidence of lack of leadership and considerable dissention in the ranks of the Democratic party. On the other hand, the middle West is filled with dissatisfactions.

I personally believe that the tariff bill hurt the Congress and the Party with the people, but that the President's veto of the bonus bill increased the President's popularity very much. His veto message was very much ~~more~~ stronger and definite than had been expected, and it is altogether an admirable and statesmanlike document. Congress has adjourned at last, leaving a good deal of untouched legislation pending, and the understanding generally is that the

Sept. 30, 1922.

President will call a special session for November 15th. In the meantime, there are two vacancies on the Federal Reserve Board which the President has not filled, the important one, of course, being Governor Harding. We are all anxious about it, not that Governor Harding is the only man in the country for that job, but because there seems to be an important principle involved in reappointing him just because he has been the victim of bitter political attack, and politics must be kept out of the System. Political control would be its death blow.

1718-H
Waddy has sent out a statement of the ~~House's~~ account which is illuminating. I had personally withheld my contribution until we knew the deplorable facts, and I have now written him that I will send \$2,000 if he needs that much, and he advises me that he thinks that is more than should be my participation, so I am going to go all over matters with him when in Washington two weeks hence, and I will let you know the outcome. The House begins to look fine, but of course it misses Basil very much. Won't you give him my best, and the same to your good self. I cannot tell you how much I enjoy and value your letters and how illuminating they are at a time when illumination is generally afforded to the public through misleading and inaccurate newspaper stories.

Yours sincerely,

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

BS.MM

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Sept. 30, 1922 1922

TO Mr. Snyder

SUBJECT: _____

FROM Governor Strong

STRICTLY CONFIDENTIAL

I am enclosing a very private letter from Colonel Logan, which please
return to me after reading. I do not want any one else to see it. Of course,
it exhibits the point which I have so strongly in mind, that the troubles in
Europe are now with people rather than with things.

9/15/22

BS.MM

att.

*Presiding
Senator Caraway
told this in his
in his interview
this morning*

CONFIDENTIAL

October 6, 1922.

Dear Logie:

Referring now to your letter of September 3, the documents which accompanied it call for no comments, especially as the six months treasury bills have been issued to the Belgian Government and "hocked". I think I wrote you expressing some regret that they had taken this course because it puts the control of the debt out of their own hands. I have already answered yours of the 15th of September by mine of September 30, and now have yours of September 21, ^{and} which gives me a most interesting account of the last phase of the reparation_N clearing house situation.

Frankly, I dread the prospect of more tension next year when, as you say, it will revert not to the 1922 compromise but to the "schedule of payment" basis, a situation which is so far from a feasible one, especially when combined with the clearing office payments as to make the outlook rather hopeless for Bradbury's program.

Won't you read the letter that I have written to Basil which contains something of what I would write you except that I should not repeat in this letter, and then consider the following: The new president of the Chamber of Commerce of the State of New York is Mr. Irving T. Bush, a very honest, high-minded gentleman, and a successful business man. He is, however, quite an advertiser, likes to make speeches and appear before the public in one way or another. He is promoting a plan to have a great international conference of business men, unofficial in character, to deal with the whole complicated European situation so far as it relates to economic matters and affects us. An hour's talk with him did not make clear to me exactly what his program was designed to accomplish, and when I finally pinned him down he admitted that the most that it could accomplish would be to have some effect upon public opinion.

Somewhat, I think, to his chagrin, I told him that the position, as I viewed it, was really rather simple. If anything was to be accomplished towards facilitated European reconstruction, it should be undertaken only by those who had some power of accomplishment, that is, by the governments concerned, just as the Disarmament problem was dealt with by governments. If all he had in mind was an educational program with especial regard to educating American public opinion, I thought it would still be a mistake for the future as it had been in the past, to invite men from abroad to come over here and tell Americans what to do, and this was especially true if we were dealing with such matters as debts, and invited the debtors to come over here for that purpose. He has already talked with the President and Secretary Hughes about it, and I think received some encouragement from the latter. I am writing you all this very confidentially to ask you to tell me frankly just how you feel about the project. The detail has not been worked out. I think he contemplates having the Chamber of Commerce take the lead in inviting a hand picked set of specialists, principally business men, from each important European country, to come over here and discuss a program which the New York Chamber of Commerce will prepare in advance. The whole project appears to me to be half-baked, visionary and impracticable, principally

Oct. 6, 1922.

for the reasons stated above, but do not be influenced by my rather strong views, and let me have your own most frankly.

So far as the Administration is concerned, I think their view is, quite naturally, that we are bound ultimately to get into some difficulty if we decline every invitation from every source for every kind of a conference and continue to do so forever, and that the time must come some day when we will need to take some hand in these affairs; but for our government to do so would mean stipulations which would practically exclude from consideration (for political reasons) all of the most important and fundamental difficulties which are now awaiting solution. Therefore, let some private enterprise get busy and see what they can propose, leaving the government in position to take it or leave it!

As against my destructive comments on this project, my personal suggestion is that the attitude of our government should now take would be to invite a conference on the fundamental economic questions now puzzling the world, but do so under stipulations which will protect us against political entanglements, on the one hand, and would give us the opportunity to bargain for peace, disarmament, economy and good housekeeping abroad against some composition of the debts as a quid pro quo. In other words, I would like to see our government face the music, even though it might ultimately involve some revision of the Treaty of Versailles, and another treaty fight, rather than to continue this policy of aloofness which is in the long run going to do more harm than good.

At least that is the way matters impress me at present, although if England and France are going to get at loggerheads over the Near East, if political intrigue and chicanery is to continue indefinitely in Europe, then notwithstanding my long cherished hope that we would in some way be able to help in their difficulties, I would rather turn to the policy which Lord Fisher reiterated, namely, "Sack the lot", which means in effect that we can do nothing until they do some housecleaning politically abroad. To express it differently, there are some situations that can be worked out by good helpful, constructive effort, and others that can only be worked out as the result of crises which revolutionize public opinion. This may be a situation so hopeless that constructive help by this country may be futile. If so, then nothing but a crisis can lay the foundation for ultimate settlement.

Please do not fail to write me promptly on this matter, as I would like to have your views before Norman gets here.

My best regards to you and to Basil.

Yours sincerely,

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

BS:MM

JAMES A. LOGAN JR.

Paris, 18 rue de Tilsitt
17 October 1922.

PERSONAL & CONFIDENTIAL

My dear Ben,

On October 11, a few days following that on which M. Barthou replaced M. Dubois as President and French Delegate on the Commission, an unofficial meeting of the Commission was called at the request of M. Delacroix. The purpose of the meeting was to discuss the future reparation programs and the causes and effects of the declining value of the paper mark and its relations to any future programs. At this meeting Sir John Bradbury presented the attached memorandum as his plan for handling the reparation question as from January 1, 1923. In this connection it will be remembered that the present provisional German reparation program is based on a "provisional moratorium" accorded by the Reparation Commission's decision of March 21, 1922, (See Annex 1352) which in general terms obligated Germany to pay 720 million gold marks in cash and effect deliveries in kind up to the value of 1,450 million gold marks during the calendar year of 1922. Theoretically, in the absence of further action by the Commission Germany's reparation obligation for 1923 reverts to the basis contemplated by the Schedule of Payments of May 5, 1921.

The Bradbury plan differs somewhat from his preliminary scheme referred to on page two of my letter of September 29. At the unofficial meeting Bradbury first argued at length in support of his plan. Delacroix followed indicating his general agreement with the broader phases of the plan and its premises but suggesting certain modifications in detail. Barthou took no position, stating it was obviously a question on which he must consult his Government, and suggesting the renewal of informal discussions on Friday, the 13th, which suggestion was agreed to.

Delacroix, while indicating his willingness to support the broad lines of the Bradbury plan, nevertheless, said that, in his judgment, the plan if adopted could only be considered as a temporary stop-gap for holding the German financial position (including the mark) until the broader questions were considered and disposed of by the Allied Governments at the Brussels Conference. Delacroix' two main suggestions of modification in the Bradbury plan were the following, viz:

First. For the Reparation Commission to aid the German Government in floating a gold loan to support German currency, rather than depending and drawing on any of the existing Reichsbank gold reserve for this purpose as contemplated by Bradbury. He argued that, if the repayment of such loan were accorded priority over all Treaty charges, the amount necessary would, in all probability, be forthcoming from German nationals without the necessity of support from outside money markets, and that psychologically this arrangement would have greater assurance of stabilizing the paper mark than if any part of the present gold reserve of the Reichsbank were used for such purpose.

Second. He was much more sanguine than Bradbury as to the Allies reaching an early and favorable settlement on the question of definitely fixing Germany's Treaty charges on the basis of capacity. He therefore suggested that the Commission blaze the way for a solution of this question by going into it before the Brussels Conference convened. He recognized the political difficulties, but argued that it was the duty of the Commission to take a stronger stand on the question of "capacity" than it had heretofore. In his judgment in no other way than by definitely fixing Germany's charges on a basis of capacity could confidence be restored in Germany and the mark supported for the future. He said that the consideration of this question in the present financial position of the Allied Powers necessarily involved a consideration of the Interallied debt question. He therefore tentatively suggested the advisability of the Commission forthwith convening a Committee of disinterested (presumably non-Allied and non-Ex-enemy) business men, bankers, and economists, for the purpose of studying and reporting to the Commission not only on Germany's capacity but also on the "corelated Interallied debt adjustment". The latter phase of Delacroix' suggestions was only tentatively advanced and was not discussed during the meeting.

The whole question discussed in this letter is still in nebulous form, and must simply be taken as a report of the preliminary opening of discussion of the reparation question as from January 1, 1923.

Faithfully yours,



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

CONFIDENTIAL

The British Delegate

to

The Reparation Commission.

The British Delegate invites the urgent attention of the Reparation Commission to the proposals contained in the accompanying memorandum.

In view of the progressive deterioration in the German financial situation as evidenced by the continuous decline of the mark exchanges and the acceleration of the progress of inflation and of general dislocation of credit in Germany, he is of opinion that immediate action on these or similar lines is imperatively necessary.

Sir John Bradbury is aware that proposals emanating from the French Government for the calling of an Inter-Allied Conference to consider the whole question of reparation and Inter-Allied debts are under consideration by the other Allied Governments. It is clear, however, that even if such a conference is held at the earliest possible date - say, the end of November - ~~intends~~ its success or failure will in large measure depend on the conditions actually existing when it assembles.

If no steps are taken in the meantime to arrest the process of financial disintegration in Germany, already well under way, there is a danger that conditions before the Conference meets will have become so chaotic as to have destroyed for the time being any possible basis for fixing German liabilities on a permanent footing, - an indispensable preliminary to the consideration of any consequential re-adjustments of inter-allied indebtedness.

Whether in any case the position in the near future is likely to be such as to allow a comprehensive treatment of reparations and cognate matters to be attempted with success is now open to doubt.

In the early summer of this year at the time of the appointment of the Bankers' Committee by the Reparation Commission, Sir John Bradbury was of opinion that if the unanimous consent of the Allied Governments could have been obtained for the principle of accepting such adjustments of the Peace Treaty liabilities as might in the opinion of practical financiers be necessary to re-establish German credit, a solution of the Reparation problem by means of foreign loans might have been found. If at the end of July the difficulties which arose in regard to the continuance of ~~cash~~ cash payments by Germany had been promptly dealt with, the situation, though by that time appreciably worse, might still have been saved. But now with the mark over 2000 to the dollar unless some measure of confidence can be restored, the possibility of establishing budget equilibrium in Germany, even if Peace Treaty liabilities are entirely suspended, seems to be so remote that it is doubtful whether, even if the Allied Governments were to consent to reductions in their creances very much larger than the most moderate amongst them have hitherto been prepared to contemplate, the floating of German foreign loans would be a practicable proposition.

If deterioration proceeds at its present pace for another two months the position may be desperate before the Conference takes place.

If on the other hand an improvement could be effected, the atmosphere would be more hopeful, and even if a complete settlement could not be looked for in the immediate future, the foundations might be laid for useful action later.

There is, however, little chance of creating such an atmosphere until the present uncertainty as to the demands which are likely to be made upon Germany in respect of Peace Treaty charges in 1923 and 1924 has been removed.

It appears to Sir John Bradbury, therefore, to be the clear

duty of the Reparation Commission to deal with the question of these demands without further delay with a view to **such** remedial action as may be possible. Such action, so far from prejudicing the solution of the problems with which the proposed Conference is intended to deal, is rather a necessary preparation for approaching them.

6.10.22

CONFIDENTIAL

THE FUTURE OF REPARATION.

I am convinced that unless immediate steps are taken to improve and stabilize the exchange value of the mark, a breakdown of the German financial structure which will be destructive to all hopes of obtaining reparation, either in cash or kind, for many years to come, if not for ever is inevitable.

If action is delayed until German internal prices have adjusted themselves to the present exchange of 2,000 marks to the dollar (even if the rate goes no worse, as it almost certainly will do unless early remedial action is taken), the difficulties of establishing budget equilibrium, even if Peace Treaty payments both in cash and kind are suspended altogether, will be very great.

I am definitely of opinion that if matters are allowed to drift such entire suspension will before very long become unavoidable, and that the longer the grant of it is delayed, the longer the period of suspension will have to be.

If it is delayed until the collapse of the German foreign exchanges is complete, I believe a break-up of economic and social order in Germany will follow, and, if this takes place, the process of rebuilding will be a very long and painful one, involving in all probability as an indispensable preliminary the entire remission of the reparation liability.

If any further increase of the floating debt could be stopped, there would at the present moment be no serious difficulty in the way of stabilizing the exchange value of the mark at any reasonable figure (say, between the limits of 500 marks and 1,000 marks to the dollar) which these responsible might see fit to select. All that is necessary is that the Reichsbank should sell gold freely for paper marks at the rate selected.

Such a policy (always on the assumption that there will be no further addition to the floating debt) involves no serious risk of depleting the gold reserve.

The present circulation is, even at an exchange of 500 marks to the dollar, quite inadequate to the needs of the country. Once the creation of new floating debt comes to an end, there are only three ways in which additional currency can be obtained by the public:-

- (a) By the discounting with the Reichsbank of German Government Treasury Bills now held by the Public (amounting on 23rd September 1922 to about 75 milliard marks).
- (b) By the withdrawal of existing deposits in the Reichsbank (which inclusive of liabilities classified under "miscellaneous" at the same date stood at 83 milliards).
- (c) By the creation of new credit by the Reichsbank.

The maximum amount theoretically obtainable under (a) and (b) is 158 milliards; in practice, it would be much less, for, though no doubt the bulk of the Treasury Bills still held by the public would either be presented for discount or have to be replaced at maturity by new Bills discounted with the Reichsbank, the deposits are not capable of unlimited reduction.

It is certain, therefore, that recourse would have to be had on a very considerable scale to (c)*, and, as the creation of new credits

* Indeed this is in fact already happening notwithstanding the continued expansion of the floating debt, by reason of the decline in the value of the mark having for the moment outstripped the progress of inflation. The Reichsbank's holding of Bills and cheques increased between 30th June and 23rd September from 4.8 milliards to no less than 43 milliards.

by the Reichsbank is entirely optional, the control of the Bank over the currency would be complete. The Bank would then be able to protect its gold and maintain the foreign exchanges by the time-honoured methods - though necessarily in the first instance at the cost of an acute credit crisis. Such a crisis has, however, to be faced in any case if serious attempts at financial reform are to be taken in hand.

The above plan is, however, only feasible if further inflation can be avoided - otherwise it will merely result in the Reichsbank gradually losing its gold without acquiring the control necessary to stop the rot.

Unless and until the credit of the German Government is re-established, inflation can only be stopped by covering Government outgoings by taxation.

With an exchange anywhere in the neighborhood of 500 marks to the dollar, this condition could be secured without serious difficulty if Peace Treaty charges were completely suspended. I doubt, however, whether it is possible if any appreciable provision has to be made for Peace Treaty charges in 1923, or anything more than quite a modest provision in 1924.

Quite apart from payments in foreign currency, the paper mark payments in respect of deliveries in kind, even on the scale of this year, would make the task a difficult one, while any increase in the deliveries in kind above the present level would almost certainly make it impossible.

With an exchange of 1,000 marks to the dollar the task of balancing the budget would be still more difficult but not I think hopeless if the Peace Treaty charges could be entirely suspended.

On the other hand, a complete moratorium in respect of all Peace Treaty obligations, both in cash and kind, not only is impossible for political reasons, but economically might have serious consequences to the

Allied countries principally interested in reparation.

Is there no way out of the impasse ?

There is one way, and I think only one. To the extent to which Peace Treaty payments, either in cash or kind, are called for in excess of the provision which can be made for them in the budget, credit facilities must be provided for the German Government.

In present circumstances, the only countries which have any inducement to provide such facilities are those receiving the payments

My proposal is:

(1) That all cash payments for Peace Treaty charges (including costs of Armies of Occupation, reparation, compositions for restitutions, clearing office balances, and miscellaneous obligations), falling due between 1 January 1923 and 31 December 1924, should be met by German Treasury five-year bonds to be delivered to the Reparation Commission and distributed to the respective Governments interested in the same manner as the cash would have been distributed if payment had been made in cash.

(2) That in respect of all deliveries in kind, services rendered, etc., within the same period for which credit has to be given to Germany under the Peace Treaty the German Government should be notified month by month of the amounts debited to each Allied Government, and should be allowed to obtain from each such Government a guarantee of German Treasury five-year bonds to the amount so debited, less such percentage, if any, as the Reparation Commission may from time to time decide can be met without creating a deficit in the German budget.

The bonds under paragraphs (1) and (2) would be identical in every respect. They would be expressed in gold marks and should be payable by the agents of the German Government in the capital of the

recipient or guaranteeing Power in the currency of that Power, at the option of the holder, either at the rate of exchange ruling at the date of issue (which should be stated on the bond) or at that ruling at the date of payment.*

The liability of the guarantors however should be limited to payment in currency at the rate of exchange at the date of issue, the holder to accept in the event of a German default such payment by the guarantor as a full discharge, all claims against the German Government in respect of the defaulted bonds to pass to the guarantor. If instead of claiming payment under the guarantee, the holder prefers to retain the defaulted bonds as a gold claim against the German Government he should be at liberty to do so, the guarantee thereupon lapsing.

The bonds should bear interest at a rate high enough, regard being had to the credit of the guaranteeing countries, to enable them to be readily negotiated at par (say, 6 and even 7 per cent.) They should have on their face a space for endorsement thereon of the guarantee of the recipient Government. Those under paragraph (1) would be retained by the Governments concerned, and would be negotiable by them only under their respective guarantees; those under paragraph (2) would be returned, after the endorsement thereon of the guarantee of the recipient Government, to the German Government, and would be negotiable by that Government.

* This option would no doubt in the event of a considerable improvement taking place in the gold value of the currency of a guaranteeing country be very costly to the German Government. In all the circumstances, however, I do not think it unreasonable to ask the German Government to take the risk in consideration for the guarantee. If the bonds are to be readily negotiable in the guaranteeing countries it is obviously essential that their value in terms of the national currency should be assured. If, in addition to this, they are gold bonds (even though the marginal gold value is not guaranteed) they would have a certain element of attractiveness (which would become considerable as German credit improves) as investments in countries of which the exchanges are not very stable.

In order to increase the attractiveness of the bonds to investors it is for consideration whether the State Banks of the respective guaranteeing countries might not undertake at any time during the currency of the bonds to make advances against them up to (say) 80 per cent of their guaranteed face value, receiving authority, if necessary, from their respective Governments to treat them as cover for their note issues.

Any country called upon to guarantee bonds under paragraph (2) should be given the option of retaining the bonds on payment to the German Government of their face value in cash.

It should be announced that, provided that the German Government carry out the requirements of the Reparation Commission in regard to balancing the budget and reform of the finances of Germany, similar arrangements will, to such extent as the Reparation Commission may think them necessary, be made for the years 1925 and 1926, and that, as soon as the position becomes sufficiently clear, and in any case not later than 1 July, 1926, the Allied Governments will consider the whole question of the aggregate liabilities of Germany under the Peace Treaty with a view to their permanent adjustment to her capacity of payment and to their liquidation by a series of foreign loans.

Subject to the above arrangements, the reparation liabilities of Germany from 1 January 1923 would be governed by the Schedule of Payments, under which the cash liability for each year is the difference between the value of the deliveries actually effected and the full annuity liability. This would have the result of giving an inducement to Germany to increase the deliveries in kind to the maximum possible figure since the guaranteed bonds representing the value of the deliveries in kind would be placed at her disposal, while those representing the cash liability would remain with the Allied Powers.

From the point of view of the Treasuries of the Allied Powers, the plan has the advantage of providing the same measure of budget relief as would have been derived from a complete execution of the Schedule of Payments provided they are prepared to guarantee, and to find a market for, the German bonds.

No alternative policy seems likely to secure anything like so satisfactory a financial result.

The policy of insisting on reparation payments and deliveries in kind without regard to their effect on the budget has already made the continuance of payments in foreign currencies impossible and jeopardized the deliveries. To continue it will soon make the cessation of even the deliveries in kind inevitable and will create conditions in which measures of coercion, if applied, will not even cover their own cost.

On the other hand, the difficulties in which the Treasuries of the Allied Powers find themselves by reason of the disappointment, not inevitable, of the extravagant hopes formerly entertained in regard to the possibilities of reparation payments are very real difficulties. They will indeed be mitigated - not aggravated as some seem inclined to contend - by a prudent handling of bad and doubtful assets and a recognition of the unwisdom of throwing good money after bad; but even so they will remain serious, and just as it would be suicidal for the Allies to press their claims against Germany to the breaking point of the latter, so it would be suicidal for the creditor Allies to press interallied claims to the breaking point of the debtor.

It is suggested therefore that in order to ease the general situation the Allied Governments should be invited to reconsider the existing inter-Allied financial arrangements with a view to:-

(1) The grant of indulgence in respect of inter-Allied War indebtedness during the period up to the maturity of the last issued German guaranteed bonds.

(2) The acceptance of the guaranteed bonds as between Allied Governments in lieu of cash for the purpose of adjustment of accounts.

(3) The taking into account of any losses incurred by the guaranteeing Governments by reason of their guarantee becoming operative in the ultimate arrangements for dealing with inter-Allied indebtedness, which should be made at the same time as the German liability is permanently adjusted.

If the above plan commends itself to my colleagues, I would suggest that the Commission should pass a resolution approving it in principle subject to the observations of the German Government and the approval of the Allied Governments.

The approval of the Allied Governments is, I think, desirable before the plan is adopted because, though more favorable to them than a simple postponement for five years of the payments falling due in 1923 and 1924 (which would be within the competence of a majority decision of the Reparation Commission), it undoubtedly involves new elements, such as the guarantee of the bonds by the Allied Governments, which are not contemplated by the Treaty of Versailles.

Its adoption should be made conditional on the German Government undertaking to impose by law upon the Reichsbank the obligation to sell gold at a fixed price - the figure to be determined by a mixed Commission of three, one member to be appointed by the German Government, one by the Reparation Commission, and the third to be an American financial expert agreed by the other two: the price, once fixed, to be incapable of increase, but to be subject to diminution on the demand of the German Government with the approval of the Reparation Commission.

The figure should have regard to the internal purchasing power of the mark,* as determined by a comparison of average German and American

* Some elasticity may be desirable in applying this principle. A fall in paper mark prices if it comes before the recent catastrophic rise has become stereotyped would probably be salutary rather than otherwise.

prices for staple commodities, at the time the rate is fixed in order to avoid complicating the credit crisis which will certainly follow the introduction of the arrangement by a fresh disturbance of internal values. Two or three weeks ago, a rate of 500 marks to the dollar would, I believe, have been suitable and practicable. Now it may be necessary to go as high as 750 or even 1,000. In a very few weeks' time a very much higher rate will almost certainly be inevitable.

Although I think it desirable that the German Government should retain the power, subject to the approval of the Reparation Commission, to lower the rate (i.e. to raise the exchange value of the mark), if in future it is thought wise to do so, it will probably be found that a new parity, once established, will be permanent. It will be convenient, therefore, to select a mark-price for gold which will make the mark-dollar or mark-pound parity a round figure.

The new Reichsbank law should also make suitable provisions, in accordance with recommendations to be made by the Committee above suggested, for the control of the note issue by requiring any new expansion to be covered in suitable proportions by gold or approved foreign currencies and commercial bills. It should also prohibit any further issues of legal tender money otherwise than by the Reichsbank.

Such an arrangement would give the best possible guarantee for the rehabilitation of the German budget position, since Germany would know that, unless the increase of the floating debt were arrested, she would lose her gold reserve and with it the last barrier between herself and final financial collapse.

If further guarantees on the part of Germany are thought to be necessary, I should see no serious objection to requiring the German Government to agree to pledge specific State assets of a suitable character to the service of the guaranteed bonds and to invest the Reparation Commission with powers of foreclosure in the event of default. The problem of find-

ing assets suitable for pledging will obviously be greatly simplified if the mark can be stabilized.

I do not myself believe that such guarantees would really improve the security, but they might have a certain political value, not only in the eyes of public opinion in Allied countries, but as indicating to the German people that any failure on their part to carry out the new arrangement will be followed by drastic action. I have never myself opposed the use of coercion to enforce obligations which Germany is really capable of carrying out - indeed, in the last resort it is the only alternative - but from the point of view of the restoration of German credit the fact of means of this character being regarded as necessary is an element of weakness rather than of strength, and unless the political advantages of indulging in them are thought to outweigh the financial disadvantages, I should prefer that recourse to them should be avoided.

I would further suggest that, in the event of the adoption of the new plan, the Allied Governments should at the same time consider the question of the desirability of reconstructing the Reparation Commission and transferring it to Berlin.

The interests of Germany and Germany's creditors are, in my opinion, on a long-sighted view, identical. Recent history has, however, shown pretty clearly that the Reparation Commission as at present constituted is too much disposed to sacrifice the interests of Germany, both present and future, and the ultimate interests of her creditors to the immediate necessities of the latter, while the German Government tends to sacrifice the immediate interests of Germany's creditors and the ultimate interests of Germany herself to the pressing financial exigencies of the moment.

If German sovereignty is to be preserved - and unless the Reparation Commission is to undertake administrative responsibility for the government of Germany and be given an army to support its authority, no other basis is possible - very intimate co-operation between the German Government and the Commission is indispensable.

4.10.22.

ACKNOWLEDGED

NOV 2 1922

B S.

JAMES A. LOGAN JR.

Paris, 18 rue de Tilsitt.
14 October 1922.

Personal

My dear Ben,

I enclose herewith:-

a) Copy of a confidential report made by Dr. Lincoln Hutchinson to Hoover concerning the economic situation in Russia. It is one of the most interesting papers I have read and if you get time to read it, I know that you will find it most illuminating. Dr. Hutchinson was a Professor of Economics in one of our great Western Universities - I think the Leland Stanford University. He just returned after having remained over one year in Russia studying the situation there. This report in a much condensed form will probably appear in some of our American economic journals early next year, but believing that you would like to have it in complete ~~report~~, I asked Hutchinson's permission to send you a copy under personal and confidential cover, which he willingly agreed to.

b) Copy of a personal letter from Dr. Alonzo Taylor to Hoover, concerning grain requirements of Europe during this cereal year. Taylor was Professor of Economics at the University of Pennsylvania but is now a member of a Food Research Committee connected with the Leland Stanford University. Needless to say, necessity for this increased European import of cereals will have some reflection on exchange and I therefore thought it would interest you.

Faithfully yours,

James A. Logan

JAL/BD
2 encls.

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

Paris, 3 October 1922.
18 rue de Tilsitt.

I want to direct your particular attention to the situation in bread grains in France. I fancy it is representative of the situation in other European countries. The statements of representatives of the grain trade are to the effect that the crop is about 1,200,000 tons less than last year. The wheat is stated to be hard and of good quality. On the basis of this statement the Government issued the new Milling Decree, calculating that through the operations of these milling regulations about five or six percent more flour would be obtained than with present practices. The grain trade estimates the required imports at from 1,500,000 to not over 2,000,000 tons during the crop year. These statements came from Proust, Siegfried, and other men, and were made in person and not taken from publications.

Vilgrain tells me a totally different story. He says that the crop is the poorest in years from the standpoint of the miller. None of their samples have gone less than 16% water, and some contain 18 to even 20. One-fifth of the samples they have rejected entirely as unfit for milling. The crop as a whole will yield much less flour than any crop since 1916. This inferior grain is worth more to the peasant as feed for animals, compared with the price of imported feed, since the miller will buy only on sample. Under these circumstances to produce the amount of flour available in France during the last crop year will require, according to Vilgrain, nearly 3,000,000 tons of imported wheat. They would prefer Canadian Hard because it blends best with the inferior wheat of the present French crop. There is a large potato crop in France but Vilgrain does not believe that potatoes will be employed to stretch flour in bread making, although undoubtedly potatoes will replace bread in the diet of the poor because calory for calory potatoes are today in France cheaper than bread.

Vilgrain gave me the following figures. No. 2 hard wheat is worth at seaboard 62 francs per quintal; the new import tax is a little over 14 francs per quintal; transport to his Paris mill is 3 francs per quintal. He would sell a straight flour made according to the present regulations at 106 francs per quintal. There is a special tax of 1.1 percent on the turn-over of a mill, in addition to all other taxes. This turn-over tax holds whether a mill is run at a profit or a loss. The bread is sold at 1.1 francs per kilo. The small millers of France who can not buy in large amounts and whose transportation costs are heavier pay in the neighborhood of 80 francs per quintal at the mill for imported wheat. This enables the peasants to hold up the local price to between 75 and 80 francs per quintal.

The new milling regulation is as follows. The millers were instructed to mill a straight flour in accordance with a sample and to sell the output of the mill as two products, namely, straight flour and mill feed. The sample was prepared from a particular batch of Australian wheat. A new sample is to be prepared each month. The sample

for the present month used as a basis can be duplicated by extracting a mixture of 60 parts of French wheat and 40 parts of No. 2 hard wheat to about 75 percent. If the miller were left to himself he would divide the same straight flour into probably three grades: Short Patent, Long Patent, and Clear, and those three grades would be sold in the appropriate markets at a sliding scale in prices. Under the operation of the new Milling Decree no more flour will be produced but all the flour will be of one grade. The Parisian market able to pay a higher price for white flour will complain of the gray flour, and the provincial market will complain that the price of the straight flour is higher than the price of clear flour. Nobody will be satisfied and no more flour will be produced. This Bill has been passed apparently in order to please both the peasant in the country and the workman in the city. I have been able to find no one who believes that through the operation of this regulation more flour will be produced out of the unit of wheat.

The Government estimate of today gives the crop at 2,400,000 tons smaller than last year. They state the condition is fair, better in the west than in the east. They suggest that the worst wheat has come on the market first and the entire crop is not to be judged by it. The crop of 1921 was harvested early; this one is harvested late; that means the crop of 1921 had to feed the country for thirteen months; this one will have to feed the country for only eleven months if next year's crop comes on time. The official estimate of import requirements is two million to two and one-half million tons.

These are the two sides of the situation. The grain trade has an obvious interest in bearing the figure of import requirements. The miller has no obvious interest in bulling this figure. The higher the amount of wheat imported the higher the average price of flour and the greater the public resentment against the miller. Therefore, in setting a high figure for import requirements the miller must do so out of conviction and not out of self-interest. Everyone who pleads for a low figure is acting as a sedative on the financial situation, since everyone is fearful of the outcome of a heavy import programme on French finance. According to the present French figures the consumption of wheat in France last year including crop and imports was 10,000,000 metric tons. By subtracting seed and carry-over this leaves a heavy consumption. This consumption could be cut 10 to 15% with ease by the use of the available potato crop. Stocks of flour in the country are probably large.

There is a curious situation in Italy. On the basis of crop, stocks and imports, the consumption of wheat in Italy last year was more than 1,000,000 tons larger than the year before, or during the years prior to the war. There is no evidence from the figures that consumption of maize or rice was reduced. If this means that stocks have been accumulated in Italy, these will tend to reduce the large import requirements that are apparently imposed on her by her present short crop. It is certainly amazing the way in which a half million tons of wheat will disappear or bob up in a country in these extraordinary times.

I am proceeding to Poland on Friday and when I am in Germany I shall be able, through direct contacts with men at the top, to determine the situation there. I have in advance the impression, through

the reports that Simpson brings back from several weeks' investigation in Germany, that the peasants have greatly understated the crop of wheat and rye as one of the preliminaries in their battle against the Government

Apparently everyone in Europe expects the price of North American wheat to fall to below a dollar Chicago or even seaboard if peace is restored in the Levant. One of the most prominent features of the international situation at present is the relative opulence of the agricultural class in the food importing countries in Europe with the relative poverty of the agricultural class in the food exporting countries over-seas.

ABT/G

COPY - MD

Green
Paris
Dated Oct. 15, 1922.
Recd. 12:15 p.m.

Secretary of State,
Washington, D. C.

401. October 15, 10 a.m.

B-773. Miscellaneous reparation receipts October 7th to 14th;
Luxemburg coal 61,460 pounds credit Belgium sale war materials 14,077
pounds credit France proceeds British reparation recovery act September
621,000 pounds retained British under March 11th agreement against army
cost. Boyden.

JHB

HERRICK

ACKNOWLEDGED

NOV 2 1922

JAMES A. LOGAN JR.

R. S.

Paris, 18 rue de Tilsitt.
17 October 1922.

Personal & Confidential

My dear Ben,

As was to be expected, the Bradbury plan for handling the reparation question as from January 1, 1923, (see copy with my letter of October 12) did not receive an enthusiastic reception in French circles. At the Commission's unofficial meeting to consider the Bradbury plan on October 13, Barthou confined his comments to some detailed criticism of the plan. He particularly emphasized lack of accord with the plan of accepting German Government Five Year Bonds in lieu of cash payments, and for requiring Allied Governments recipients of deliveries in kind to guarantee similar Bonds up to the value of deliveries actually received by them. On the other hand Barthou indicated some support of Delacroix' proposal of asking the advice of a conference of business representatives of the highest standing, free from political control, on the question of Germany's "capacity" and the so-called "corelated question of interallied debts". In conclusion, he advised being engaged with the French Government in the formulation of a counter-plan to Bradbury's which he proposed officially submitting to the Commission on October 20, and asked for postponement of further consideration of the question until his new plan had been submitted. It was then agreed that the Bradbury plan and the French plan would come up for official consideration on this latter date.

Very little of the real French position was developed in Barthou's conversation of October 13. Barthou is an able and clever man. However, he so often reiterates those time-worn phrases of the French politician of being in agreement "en principe" with "everyone", "Je vous dis avec toute franchise", "honnêtement et franchement", etc., that he gives the impression of being more of a politician than an economist.

In the course of the conversation at the unofficial meeting, which was of the most informal character, Barthou referred to the approaching Brussels Conference and its important relation to the solution of the reparation question. Bradbury replied that Barthou should not overlook the fact that Great Britain had not as yet signified her willingness to participate at Brussels, and that the question of whether she would participate remained one of extreme doubt. Bradbury then emphasized the importance of Franco-British solidarity on the handling of the reparation question, to which Barthou expressed concurrence. All of this resulted in starting a long amicable discussion of internal politics of Great Britain and France. Barthou said that much stress had been laid in the British press on the moderate reparation theses of Briand, Loucheur, and other French political leaders, now out of office. The impression given by Barthou,

though he did not directly say so, was that this British press support of French "has been's" and perhaps "to be's" was open to the suspicion of being purposely designed to undermine Poincaré politically. Barthou said that he knew, and was on intimate terms with all French political leaders out of office. To his knowledge, none of these gentlemen held the moderate reparation views attributed to them by the British press, and even if they did and were in office, public opinion would not tolerate them supporting such views. Barthou said these gentlemen viewed with trepidation the commendation of the British press, feeling such commendation had a decided "back-kick" on their political ambitions with French public opinion.

Bradbury, in a similar vein, referred to the French press attacks on Lloyd George. He stated that while not a follower of Lloyd George personally, he nevertheless felt that the criticisms of Lloyd George in the French press, as well as the tone of certain recent semi-official statements, was leading the British public to believe that the French were endeavoring to interfere in British domestic politics. He then discussed the British domestic political position, emphasizing the fact that as yet Lloyd George had not indicated whether he would join up with the Conservative, Liberal, Labor, or Coalition, factions in Great Britain. Bradbury pointed out that according to the French public conception there was wide divergence of view between the different British political parties on the treatment of the German reparation question. He maintained that such conception was entirely erroneous, and that any divergence of view was in form rather than substance, and that psychologically, no better campaign support could be accorded Lloyd George than by the British public coming to a realization that outsiders for their own purposes were attempting to mix in British domestic questions for the purpose of pulling Lloyd George down.

Now, while not attaching undue importance to the Bradbury-Barthou talk on the French and British internal political situations, it nevertheless has some bearing on the conduct of the present reparations and interallied indebtedness discussion between France and Great Britain.

As I see it, the stage is now set for the opening of a serious controversy between the British and French on the question of reparations and interallied indebtedness. Apparently, the Asia Minor situation has sufficiently cleared up so that both sides in the controversy now have more or less free hand. What the outcome will be I would not care to forecast. My present impression is that there is a good chance of the British definitely breaking with the French on this question and even of withdrawing their representation from the Reparation Commission. This latter possibility has been intimated on several occasions recently. Bradbury intimated at several recent unofficial conferences that if a more moderate and business-like policy be not followed in handling the reparation question, the only result would be a complete financial collapse of Germany, and the hope of obtaining even "one shilling" now or in the future from Germany on reparation account would disappear. Under these conditions he maintained that the French thesis (without

entering into the merits of such a thesis) of "What France cuts down on German indemnity must be compensated for by a similar cut in French debt obligations" would have no legs to stand on. In other words, reparation receipts of 0 constituted no basis for negotiating a trade against France's debt obligations held by outsiders.

Personally, while sharing Bradbury's views as to the foolishness of the past reparation policy, and as to the necessity for approaching the present situation from its purely business angle, I nevertheless can not force my mind to accept as being sound his plan of receiving German Government Five Year Bonds in lieu of cash payments and guaranteeing similar Bonds covering deliveries in kind actually effected. In my judgment, under this procedure, little of a constructive economic nature is accomplished. I also feel that Bradbury is too sound a man to really be the father of the plan labeled with his name, and that more probably it was largely elaborated in London for the purpose of drawing out the French.

Barthou has as yet given no indication of the details of the French plan to be submitted October 20th. My guess is that the plan, after dealing with the obvious weaknesses in Bradbury's, will contain much detail as to the form of financial control which the French consider necessary to institute in Germany; general agreement with the Delacroix suggestion to set up a committee of business men to study Germany's "capacity", with perhaps reference to the so-called "corelated interallied debt question"; the whole being designed to blaze the path for and stave off action until the opening of the Brussels conference. Whether the British and others will agree to this delay awaits to be seen.

Bergmann has been in Paris for the last few days trying to get into touch with the French on the plan the latter propose submitting on the 20th. From what he tells me his efforts to make such contact, or even obtain a hearing, have not been successful.

Bergmann does not entirely support the Bradbury plan----primarily as he knows it will not be accepted by the French. He has an alternative plan in purely tentative form which in our view is sounder than Bradbury's. He maintains that for the present at least no useful results would follow any effort to fix Germany's total reparation obligation, this in view of the opinion generally held in Europe, of the relationship between the indemnity and interallied debt settlements. He suggests the following formula as a basis for the rehabilitation of German finances and sound reparation payments during the period which, in his opinion, must elapse before a definite and final settlement of the reparation question can be reached, viz:

Germany to pay in cash, per annum, as from January 1, 1923, 10% of the value of her exports over and above the figure of 4 billion gold marks (no cash to be paid if total exports are under 4 billion gold marks; in other words, an automatic and complete cash moratorium if German exports do not reach 4 billion); 5% additional on the value of exports between

6 and 7 billion gold marks per annum, 5% additional on the value of each additional billion increase in exports, up to a total of 25% (the percentage figures fixed in the Schedule of Payments). Simultaneously, deliveries in kind, starting with January 1, 1923, to be effected up to a value of 1 billion gold marks per annum, with provisions for certain increases depending on Germany's economic recovery. He proposes asking the Reparation Commission or the Allied Governments to accord priority in repayment over reparations to a German Government gold loan of approximately 50 million dollars. This loan according to Bergmann is all that is needed for his plan and would be largely covered by German nationals from their hidden resources if accorded the priority indicated by the Allies and certain legal and taxation benefits by the German Government. The proceeds of this loan to be devoted to internal German Government requirements and not to reparations. He proposes using such portion as necessary in supporting the Reichsbank in the stabilization of the mark by selling gold freely for paper marks at a selected rate. He does not care what point is selected at which to stabilize the paper mark; in other words, whether it be one, two, three, four, or five thousand to the dollar. Under his plan of fixing the annual reparation obligation and stabilizing exchange such renewal of confidence will come both within and without Germany that in his opinion the Government will be strong enough to force extensive curtailment of imports and budget expenses, place taxation on a proper basis, and to take the other measures necessary to an equilibrium of the budget, and thus stop all necessity of further monetary inflation.

Whether Bergmann's plan in its present or modified shape will be heard before the Commission or before the proposed "Committee of Business Representatives", or at the Brussels Conference rests to be seen. It appears to us as being based on sound principles. From a practical point of view its "workability" even if adopted depends on two most important and as yet unknown factors, viz: (1) Confidence within and without Germany and (2) Actual and real French support.

Faithfully yours,



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

COPY - MD

PT

GREEN

Paris

Dated October 22nd, 1922

Recd. 11.25 a.m.

Secretary of State,
Washington, D. C.

417, October 22nd, 10 a.m.

B-779. Miscellaneous reparation receipts since October 14th:
war material four hundred eighteen pounds credit France; post and
telegraph 2,056 French francs; Luxemburg coal 2,741 pounds credit
Belgium. Boyden.

HERRICK

C797

Reparations

ACKNOWLEDGED Bank of England

NOV 3 1922

London, E.C. 2

25th October, 1922.

R S

My dear Strong,

I think you would like to see the full text of Sir John Bradbury's latest memorandum on the Reparation question and I am therefore sending you a print of the document which I have just received from Paris.

Yours most sincerely,

di Romanis

Loose in file

Benjamin Strong, Esq.

*Enclosure with
Norman's letter Oct.*

ANNEXE N° 1614

Déclaration du Délégué Britannique

sur la grave situation créée par la nouvelle dépréciation du mark.

ANNEX N° 1614

Statement by the British Delegate

on the urgent situation created by the further fall of the mark.

Confidentiel

Confidential

ANNEXE 1614.

A. A. A.

6 Octobre 1922.

Le Délégué britannique,
A la Commission des Réparations.

Le Délégué britannique a l'honneur d'appeler l'attention instante de la Commission des Réparations sur les propositions contenues dans le memorandum ci-joint.

En raison de l'aggravation progressive de la situation financière de l'Allemagne dont témoignent la baisse continue du mark et l'accélération du mouvement d'inflation et de dislocation générale du crédit en Allemagne, il estime qu'une action immédiate d'après ces principes ou des principes analogues est impérieusement nécessaire.

Sir John Bradbury est informé que des propositions émanant du Gouvernement français en vue de la convocation d'une Conférence interalliée pour l'étude de toute la question des réparations et des dettes interalliées sont soumises à l'examen des autres Gouvernements alliés. Il est évident, toutefois, que même si une telle conférence a lieu à la date la plus prochain possible, à la fin de novembre, par exemple, son succès ou son échec dépendra dans une grande mesure des conditions qui existeront au moment où elle se réunira.

Si aucune mesure n'est prise dans l'intervalle pour arrêter le mouvement de désintégration financière déjà bien avancé en Allemagne, il est à craindre que la situation n'ait abouti à un tel chaos avant la réunion de la Conférence, qu'il ne subsiste pour le moment aucune base possible pour la fixation des obligations de l'Allemagne sur un fondement permanent — préliminaire indispensable de l'examen de tous réajustements subséquents des dettes interalliées.

Il est permis de se demander en ce moment si, de toute manière, la situation a des chances d'être telle, dans un avenir prochain, que l'on puisse tenter avec succès de traiter dans toute leur ampleur la question des réparations et les questions de la même famille.

Au début de l'été de la présente année, au moment où le Comité des Banquiers a été constitué par la Commission des Réparations, Sir John Bradbury estimait que si l'on avait pu obtenir que les Gouvernements alliés consentissent unanimement à accepter en principe tels ajustements des obligations du Traité de Paix qui pouvaient, de l'avis d'hommes rompus à la pratique des affaires de finances, être nécessaires pour rétablir le crédit de l'Allemagne, on aurait pu trouver une solution du problème des réparations au moyen d'emprunts à l'étranger. Si, à la fin de Juillet, les difficultés qui se sont produites relativement à la continuation des paiements en espèces par l'Allemagne avaient été promptement traitées, la situation, bien qu'elle fût en ce moment sensiblement plus mauvaise, aurait pu encore être sauvée. Mais aujourd'hui, avec le change à plus de 2,000 marks pour un dollar, à moins qu'on ne ramène un certain degré de confiance, la possibilité d'établir l'équilibre budgétaire en Allemagne, même si les obligations du Traité de Paix sont entièrement suspendues, paraît être si lointaine qu'il est douteux que, alors même que les Gouvernements alliés consentiraient à des réductions de leurs créances beaucoup plus grandes que les plus modérés d'entre eux n'ont été jusqu'à présent disposés à en envisager, la négociation d'emprunts allemands à l'étranger soit de l'ordre des choses pratiques.

Si l'aggravation continue avec la même vitesse pendant deux mois encore, la situation pourra se trouver désespérée avant que la conférence ait lieu.

Si, d'autre part, une amélioration pouvait se produire, l'atmosphère serait plus engageante; et même si on ne pouvait s'attendre à un règlement complet dans un avenir immédiat, on pourrait poser des fondations en vue d'une action utile ultérieure.

Il y a toutefois peu de chances de créer une telle atmosphère, avant que l'incertitude actuelle, en ce qui concerne les demandes qui offrent des probabilités d'être faites à l'Allemagne pour ses obligations du Traité de Paix en 1923 et 1924 ait été dissipée.

Il apparaît donc à Sir John Bradbury que la Commission des Réparations a le devoir évident de s'occuper de la question de ces demandes sans plus de retard, en vue d'apporter tout remède qui pourra être possible. Un tel remède, loin de préjudicier à la solution des problèmes que la future Conférence doit traiter, est plutôt une préparation nécessaire à leur étude.

LES RÉPARATIONS À L'AVENIR.

Je me permets d'exprimer la conviction que, faute d'adopter immédiatement les mesures nécessaires afin d'améliorer et de stabiliser le cours du mark, nous nous trouverons dans l'impossibilité d'empêcher l'écroulement définitif du système financier de l'Allemagne, ce qui ferait disparaître pour plusieurs années sinon pour toujours tout espoir d'obtenir les réparations soit en espèces soit en nature.

2 Dans le cas où telles mesures seraient remises jusqu'au moment où l'équilibre s'établira entre les prix d'achat en Allemagne et la valeur extérieure actuelle du mark (2,000 marks au dollar) il serait très difficile d'équilibrer le budget, même dans l'hypothèse d'une suspension complète de toutes revendications tant en espèces qu'en nature découlant du traité, et même si le taux de change cesse d'empirer, hypothèse presque invraisemblable, faute de mesures d'assainissement immédiates.

3. Car la cessation de tous paiements est la fin à laquelle, j'en suis persuadé, aboutirait nécessairement dans un très bref délai la politique du « laisser faire », et plus on hésite à accorder une suspension des paiements, plus étendue devra être la durée de cette suspension.

4. Si une pareille décision était remise jusqu'au moment où le mark s'effondrera tout à fait, il faudrait envisager, à mon avis, la dissolution du système économique et de l'ordre social en Allemagne. Dans de pareilles circonstances, la tâche de reconstruction demanderait une période de travail très étendue, des efforts pénibles et, probablement, comme condition préalable, l'annulation complète de toute revendication à titre d'indemnité.

5. Si, cependant, on arrivait à faire cesser toute augmentation de la dette flottante, il n'y aurait pas grande difficulté, à l'heure actuelle, à stabiliser le cours du mark à un chiffre convenable (mettons entre 500 et 1,000 marks au dollar), à choisir par les autorités compétentes.

Il suffirait que la Reichsbank vende son or librement au taux prescrit contre des marks-papier.

6. Une politique ainsi conçue ne comporte aucun danger de faire disparaître la réserve en or, pourvu toutefois que l'augmentation de la dette flottante soit enrayée.

7. En ce moment (même sur la base de prix intérieurs correspondant au taux de change

de 500 marks au dollar) le montant de la circulation monétaire est très inférieur aux besoins du pays. Aussitôt enrayée l'augmentation de la dette flottante, il n'y aura que trois moyens à la disposition des particuliers pour obtenir de nouvelles provisions de monnaie courante, à savoir :

a) Faire escompter par la Reichsbank les bons du Trésor du Gouvernement allemand détenus actuellement par des particuliers (dont le montant était de 75 milliards de marks à date du 23 Septembre 1922);

b) Retirer une partie des sommes déposées à la Reichsbank (dont le montant y compris les sommes inscrites au chapitre « Divers » s'élevait à la même date au chiffre de 83 milliards);

c) Faire créer par la Reichsbank de nouveaux crédits.

8. Théoriquement on pourrait obtenir par les moyens a) et b) un maximum de 158 milliards; cependant en réalité la somme serait bien moins élevée. Sans doute la plupart des bons du Trésor, qui se trouvent encore entre les mains des particuliers seront ou remis pour escompte à la Reichsbank, ou bien nécessairement remplacés à la date de l'échéance par des bons nouveaux escomptés par la Reichsbank: mais les sommes se trouvant en dépôt ne comporteraient pas une réduction illimitée.

9. Par conséquent, il y a lieu de croire qu'on serait forcé de se servir très largement du moyen (c) [1], et comme la Reichsbank a pleine liberté quant à la création de nouveaux crédits; celle-ci aurait entre ses mains le contrôle absolu de la circulation monétaire.

Dans ce cas là, la Banque se trouverait à même de sauvegarder son or et de maintenir le taux du change suivant les méthodes classiques, non pas bien entendu sans soulever au commencement une crise aigüe du crédit.

Mais quoiqu'il arrive on doit envisager une crise de cette nature si l'on veut entreprendre sérieusement les réformes financières.

10. Une combinaison de cette nature cependant ne pourrait s'effectuer que dans le cas où l'augmentation de la dette flottante serait enrayée: autrement on n'aboutirait à rien sinon à ce que petit à petit la Reichsbank perde son or sans acquérir le contrôle nécessaire pour mettre un terme à la débâcle financière.

11. Jusqu'à ce que le crédit du Gouvernement soit rétabli, on n'arrivera à supprimer l'inflation qu'en prélevant sur les impôts mêmes toute somme à payer par l'État.

12. Un pareil équilibre du budget pourrait s'effectuer sans sérieuse difficulté avec un change aux environs de 500 marks au dollar si les revendications du chef du Traité étaient entièrement suspendues; mais je doute que cet équilibre pourrait être réalisé si l'on envisage des demandes tant soit peu considérables pour 1923 et dépassant un chiffre très modeste pour 1924.

13. En mettant de côté les paiements en devises étrangères, les paiements en marks papier du chef des réparations en nature, même à l'échelle de l'année courante, rendraient

(1) En fait, malgré l'augmentation continue de la dette flottante, ce résultat commence déjà à se produire parce que la baisse de la valeur du mark pour le moment s'effectue encore plus rapidement que ne s'accroît l'inflation.

Pendant la période du 30 juin au 23 septembre, le montant des traites et des chèques détenus par la Reichsbank s'est élevé de 4,8 milliards à 43 milliards.

assez difficile la tâche d'équilibrer le budget au moyen des impôts, tâche qui deviendrait tout à fait impossible du moment où l'on provoquerait une augmentation de ces prestations.

Avec un change de 1.000 marks au dollar, la tâche d'équilibrer le budget serait encore plus ardue, mais non pas, à mon avis, impossible, si les charges du Traité pouvaient être entièrement suspendues.

14. D'un autre côté, un moratorium complet s'appliquant à tout autre paiement à faire en vertu du Traité, tant en nature qu'en espèces, est non seulement inadmissible, pour des raisons d'ordre politique, mais est aussi de nature à avoir de graves répercussions sur la vie économique des Puissances alliées qui possèdent les principales créances sur l'Allemagne.

15. Je me demande s'il y a moyen de sortir de cet impasse ?

Il n'y en a qu'un seul, à mon avis. Dans la mesure où l'on exige, du chef des réparations, soit en espèces, soit en nature, des sommes dépassant la prévision maximum qui pourrait être couverte par le budget du Reich, il faut mettre à la disposition du Gouvernement allemand des facilités pour se procurer des crédits.

Dans les circonstances actuelles, seules les Puissances qui reçoivent des paiements de l'Allemagne ont intérêt à donner les facilités nécessaires.

16. J'ai l'honneur, donc, de soumettre la proposition suivante :

1° Pour couvrir tout paiement exigible en espèces d'après le Traité (y compris les dépenses des armées d'occupation, les réparations, les forfaits de restitution, les soldes des offices de compensation, et les revendications de toute autre nature) venant à échéance entre le 1^{er} Janvier 1923 et le 31 Décembre 1924, le Gouvernement allemand remettra à la Commission des Réparations des bons du Trésor à échéance de cinq ans, qui seront répartis entre les Gouvernements intéressés de la même façon qu'auraient été répartis tous paiements effectués en espèces.

2° En ce qui concerne les prestations en nature et les services rendus, etc., pendant la même période pour lesquels l'Allemagne a droit, selon le Traité, à recevoir un crédit, on notifiera chaque mois au Gouvernement allemand le montant des sommes pour lesquelles chaque Gouvernement sera débité, et jusqu'à concurrence de ce montant, le Gouvernement allemand émettra des Bons du Trésor à échéance de cinq ans pour lesquels il recevra la garantie du Gouvernement débité. La Commission des Réparations sera libre, toutefois, de fixer de temps à autre un pourcentage à déduire de ce montant, représentant ce qui, à son avis, peut être payé sans créer un déficit dans le budget allemand.

17. Les bons dont il s'agit aux alinéas (1) et (2) seront exactement identiques. Ils seront libellés en marks-or, et l'agent financier du Gouvernement allemand sera tenu à rembourser les bons dans la capitale de la Puissance qui les reçoit ou qui les munit de sa garantie en monnaie légale de ce pays, soit au change de la date de l'émission (date qui sera inscrite sur le bon) soit au change de la date de paiement, à la volonté du détenteur (1).

(1) Sans doute le choix ainsi offert aux porteurs imposerait au Gouvernement allemand un fardeau assez lourd dans le cas d'une hausse considérable de la valeur en or de la monnaie d'un pays garant. Néanmoins je ne trouve pas excessif d'inviter le Gouvernement allemand à en accepter le risque, étant donné qu'il profite de la garantie. Il va de soi que, dans le but de faciliter la vente des bons sur place, il en faut assurer la valeur en monnaie courante des États garantis. Étant, en outre, remboursables en or (bien que la plus-value en or ne soit pas garantie) les bons ne seront pas sans attrait pour les acheteurs de titres dans le pays où le change est peu stable, attrait qui deviendra plus fort au fur et à mesure que se relèvera le crédit du Gouvernement allemand.

18. Il faut cependant limiter strictement la responsabilité du Gouvernement qui donne sa garantie aux bons : dans le cas où le Gouvernement allemand ne ferait pas face à son obligation, le Gouvernement garant sera tenu seulement de payer les bons en espèces au change de la date d'émission; ce paiement devrait être accepté par le porteur comme satisfaction complète de ses droits, et tout droit de revendication par suite de son manquement passerait au Gouvernement qui a donné la garantie. Si, au lieu de demander paiement selon la garantie, le porteur préférerait retenir le bon échu et non payé pour en réclamer la valeur en or ultérieurement au Gouvernement allemand, il aura le droit de le faire, mais en ce cas, la garantie sera considérée comme épuisée.

19. L'intérêt des bons sera fixé en tenant compte de la situation financière des pays garants à un chiffre assez élevé pour en permettre la vente au pair (mettons à 6 ou même à 7 %); ils seront imprimés de façon à permettre aux Gouvernements d'endosser le texte de leur garantie sur le document même.

Les bons dont il s'agit dans l'alinéa (1) resteront entre les mains du Gouvernement intéressé qui n'aura le droit de les négocier qu'en leur donnant sa garantie; ceux dont il s'agit dans l'alinéa 2 seront remis, après endossement de la garantie, au Gouvernement allemand qui sera libre de les négocier.

20. Afin d'accroître l'attrait des bons pour les acheteurs de titres, la question se pose de savoir si les Banques d'État ne pourraient pas s'engager à faire des avances sur hypothèque des bons jusqu'à concurrence de 80 % de leur valeur garantie nominale. Les Gouvernements intéressés en même temps examineraient s'ils pourraient autoriser leur banque d'État à admettre les bons comme garantie de leurs émissions de billets de banque.

21. Tout Gouvernement invité à donner sa garantie aux bons dont il s'agit dans l'alinéa (2) aura le choix de retenir les bons contre paiement en espèces au Gouvernement allemand de leur valeur nominale.

21 bis. Il faudrait notifier que, dans la mesure approuvée par la Commission des Réparations, des arrangements de même nature seront faits pour les années 1925 et 1926, pourvu que le Gouvernement allemand donne satisfaction à la Commission des Réparations en ce qui concerne l'équilibre du budget et les réformes des finances de l'Allemagne; en outre, qu'aussitôt la situation suffisamment éclaircie, et en tout cas avant le 1^{er} juillet 1926, les Gouvernements alliés se proposent d'examiner, dans son ensemble, la question des obligations totales de l'Allemagne découlant du Traité afin d'arriver à un règlement définitif eu égard à la capacité de paiement de l'Allemagne et au moyen d'une série d'emprunts à contracter à l'étranger.

22. Sous réserve de l'arrangement ci-dessus, les réparations à la charge de l'Allemagne, pendant la période postérieure au 1^{er} janvier 1923, seront déterminées par l'État des Paiements, selon lequel l'Allemagne est tenue à payer chaque année en espèces une somme représentant la différence entre la valeur des livraisons effectuées en nature, et la somme totale de l'annuité.

Par conséquent, l'Allemagne aura intérêt à augmenter les livraisons en nature dans toute la mesure du possible, vu que des bons garantis jusqu'à concurrence de la valeur des livraisons en nature resteront à sa disposition, alors que les bons représentant la dette en espèces resteront entre les mains des Puissances alliées.

23. Du point de vue des Trésoreries des Puissances alliées, le projet que je viens d'expo-

ser possède le mérite d'alléger la situation budgétaire dans la même mesure qu'une exécution complète de l'État des Payements, pourvu toutefois que les Puissances consentent à ouvrir leur marché aux bons et à les munir de leur garantie.

23 bis. Je ne crois pas qu'on puisse attendre d'une politique alternative des résultats financiers également productifs.

23 ter. La politique consistant à exiger les paiements de réparations et les livraisons en nature, sans tenir compte de leurs répercussions sur le budget, a déjà eu pour effet de rendre impossible la continuation des paiements en devises et de mettre en danger les livraisons en nature elles-mêmes.

Persister dans cette politique, c'est inévitablement amener la fin des livraisons en nature à très bref délai et créer une situation dans laquelle toute mesure coercitive éventuelle comporterait des dépenses bien plus fortes que la somme qu'on pourrait se procurer par ces mesures.

D'un autre côté, il faut bien constater les difficultés véritables des Trésoreries des Puissances alliées, résultant du fait qu'on ne peut plus croire à la réalisation des espérances antérieures extravagantes quant à l'envergure possible des réparations.

On apportera un certain adoucissement à ces difficultés, au lieu de les aggraver (comme certains paraissent disposés à le soutenir), si on consent à traiter prudemment les créances mauvaises ou douteuses et à reconnaître qu'il serait très peu sage de dépenser des sommes importantes dans l'espoir fallacieux de recouvrer de mauvaises créances.

Quoi qu'il arrive, il nous restera des difficultés redoutables; mais, soit que les Alliés insistent intégralement sur leur droit vis-à-vis de l'Allemagne jusqu'à écraser celle-ci, soit que chaque Puissance alliée insiste sur ses propres droits vis-à-vis des autres jusqu'à écraser le débiteur, j'appelle cela une politique de suicide.

Par conséquent, je me permets de soumettre l'avis qu'afin d'amener une détente dans la situation générale, les Puissances alliées soient invitées à prendre en considération une révision des arrangements interalliés tels qu'ils existent en ce moment aux conditions suivantes :

1° Pendant la période qui précède l'échéance de la dernière série des Bons du Trésor garantis à émettre par le Gouvernement allemand, des tempéraments seront accordés en ce qui concerne les paiements du chef des dettes interalliées.

2° Les Puissances alliées se mettront d'accord pour accepter les Bons du Trésor garantis au lieu de paiement en espèces en ce qui concerne le règlement des comptes entre elles.

3° Dans le cas où une Puissance garante subirait une perte du fait que sa garantie deviendrait effective, les Puissances alliées s'engageraient à tenir compte de ladite somme dans l'arrangement à obtenir ultérieurement en ce qui concerne les dettes interalliées; arrangement qui sera conclu au moment même du règlement définitif de la dette allemande.

24. Si mes collègues se trouvent disposés à accepter le projet que je viens d'exposer, je proposerai à la Commission de bien vouloir l'accepter en principe, sous réserve des observations du Gouvernement allemand, et de l'approbation des Puissances alliées.

Il est évident que la combinaison sera beaucoup plus avantageuse du point de vue de ces gouvernements qu'une simple suspension pendant cinq ans des paiements à effectuer en 1923 et en 1924, suspension qui pourrait être accordée par la Commission par une décision prise à la majorité des voix.

Néanmoins, je trouve l'approbation préalable des gouvernements alliés désirable parce qu'il y a dans mon projet des éléments nouveaux que le Traité de Versailles n'a pas envisagés, tels par exemple que la garantie des bons par les Gouvernements alliés.

25. Comme condition préalable, le Gouvernement allemand s'engagerait formellement à faire voter une loi selon laquelle la Reichsbank sera tenue de vendre son or à un prix convenu. Ce prix sera fixé par une Commission mixte de trois membres, dont le premier sera nommé par le Gouvernement allemand, le deuxième par la Commission des Réparations, et le troisième sera choisi par les deux autres parmi les experts financiers des États-Unis. Cette commission pourra abaisser le prix convenu à la demande du Gouvernement allemand et avec l'approbation de la Commission des Réparations, mais le prix fixé dans les conditions sus-mentionnées ne comportera aucune augmentation.

26. Le chiffre dont il s'agit sera déterminé, dans la mesure du possible (1), d'après le pouvoir d'achat intérieur du mark, calculé sur le rapport entre les prix moyens des marchandises principales en Allemagne, au moment de la fixation du chiffre, et les prix existants en Amérique, afin de ne pas compliquer par une nouvelle perturbation des valeurs à l'intérieur la crise du crédit à laquelle il faut s'attendre dans les conditions prescrites.

Un cours de 500 marks au dollar il y deux ou trois semaines aurait été, selon mon opinion, possible et approprié.

Dans les circonstances actuelles on ne pourrait guère proposer un chiffre moins élevé que 750 ou même 1.000. Dans un très bref délai j'estime qu'un taux beaucoup plus élevé sera presque certainement inévitable.

27. Tout en considérant qu'il est désirable d'accorder au Gouvernement allemand la faculté (sous réserve de l'approbation de la Commission des Réparations), de diminuer le prix convenu, c'est-à-dire de faire augmenter la valeur de change du mark, dans le cas où cette procédure lui semblerait ultérieurement avantageuse, il y a des raisons de croire à la permanence de la parité qui aura été déterminée par la Commission mixte.

Il conviendrait donc de faire choix d'un chiffre comme valeur or du mark tel que l'équivalence, soit du dollar, soit de la livre sterling, soit exprimée en chiffre rond.

28. La nouvelle loi de la Reichsbank, rédigée après avis de la Commission mixte, réglera l'émission de billets de telle façon que toute augmentation du montant des billets sera garantie dans une proportion convenable par des dépôts d'or ou des devises étrangères, approuvées en partie par des effets de commerce.

En même temps la loi interdira toute nouvelle émission de billets ayant force libératrice sinon par la Reichsbank elle-même.

29. J'estime qu'il n'existe aucun moyen de garantir l'assainissement des finances budgétaires d'Allemagne plus efficace que celui que je viens d'exposer, parce que par ce système nous ferons comprendre aux Allemands que faute d'une cessation de l'augmentation de la dette flottante ils perdront leur réserve en or, et avec cette réserve la dernière barrière qui les sépare de la débâcle financière définitive.

30. Dans le cas où l'on estimerait nécessaires des garanties supplémentaires pour le service des bons, je ne vois pas d'inconvénient sérieux à ce qu'on exige de l'Allemagne une

(1) Il ne faudrait pas suivre ce principe d'une façon trop rigide. Il y a lieu d'attendre des résultats plutôt salutaires d'une baisse des prix en marks papier, dans le cas où la baisse se produirait avant la fixation permanente de la hausse phénoménale des prix qui vient d'avoir lieu.

hypothèque sur des biens d'État convenablement choisis, que la Commission des Réparations aura le droit de saisir au cas de manquement de la part de l'Allemagne.

Si on arrive à stabiliser la valeur du mark, la tâche de choisir des biens convenables à cette hypothèque sera évidemment beaucoup moins difficile.

31. Personnellement, je ne crois pas que pareille hypothèque nous fournisse réellement un accroissement de sécurité, mais du point de vue politique, j'y reconnais une certaine valeur, non seulement vis-à-vis de l'opinion publique des pays alliés, mais aussi vis-à-vis des ressortissants allemands qui seraient avertis des mesures sévères qui suivraient tout manquement au nouvel arrangement.

Pour moi-même, je n'ai jamais été opposé à ce qu'on prenne des mesures coercitives afin de faire exécuter par l'Allemagne ce qu'elle peut réellement exécuter (et je constate qu'en fin de compte il n'y a pas d'autre alternative) — mais du point de vue du rétablissement du crédit de l'Allemagne, le fait que des menaces de cet ordre seraient considérées comme nécessaires créerait plutôt une atmosphère de défiance que de confiance; je préférerais donc ne pas me servir de cette méthode, à moins que les résultats favorables à en espérer du point de vue politique soient bien supérieurs aux dangers en découlant du point de vue financier.

32. Je me permettrai, dans le cas où ce nouveau système serait accepté, de conseiller en outre que les Gouvernements alliés prennent en considération le remaniement de la Commission des Réparations et son transfert à Berlin.

Les intérêts véritables de l'Allemagne et de ses créanciers si on les envisage sans courtoisie, sont, à son avis, identiques.

Cependant des événements qui viennent de se passer on pourrait déduire la conclusion que d'une part la Commission des Réparations dans sa constitution actuelle se trouve trop disposée à faire le sacrifice des intérêts actuels et ultérieurs de l'Allemagne et des intérêts ultérieurs de ses créanciers aux besoins immédiats de ceux-ci; et d'autre part que le Gouvernement allemand se trouve disposé à faire le sacrifice des intérêts actuels de ses créanciers et de ses propres intérêts ultérieurs à ses besoins financiers du moment.

Si l'indépendance de l'Allemagne comme État souverain doit être maintenue — hypothèse qu'il faut accepter si la Commission des Réparations ne prend pas la responsabilité administrative du Gouvernement du Reich, ce qui demanderait des armées comme point d'appui de son autorité — il faut arriver à une collaboration très intime et très complète du Gouvernement allemand et de la Commission des Réparations.

ANNEX 1614.

October 6th, 1922.

The British Delegate
To the Reparation Commission.

The British Delegate invites the urgent attention of the Reparation Commission to the proposals contained in the accompanying memorandum.

In view of the progressive deterioration in the German financial situation as evidenced by the continuous decline of the mark exchanges and the acceleration of the progress of inflation and of general dislocation of credit in Germany, he is of opinion that immediate action on these or similar lines is imperatively necessary.

Sir John Bradbury is aware that proposals emanating from the French Government for the calling of an Interallied Conference to consider the whole question of reparation and interallied debts are under consideration by the other Allied Governments. It is clear, however, that even if such a conference is held at the earliest possible date — say, the end of November — its success or failure will in a large measure depend on the conditions actually existing when it assembles.

If no steps are taken in the meantime to arrest the process of financial disintegration in Germany, already well under way, there is a danger that conditions before the Conference meets will have become so chaotic as to have destroyed for the time being any possible basis for fixing German liabilities on a permanent footing — an indispensable preliminary to the consideration of any consequential re-adjustments of interallied indebtedness.

Whether in any case the position in the near future is likely to be such as to allow a comprehensive treatment of reparations and cognate matters to be attempted with success is now open to doubt.

In the early summer of this year at the time of the appointment of the Banker's Committee by the Reparation Commission, Sir John Bradbury was of opinion that if the unanimous consent of the Allied Governments could have been obtained for the principle of accepting such adjustments of the Peace Treaty liabilities as might in the opinion of practical financiers be necessary to re-establish German credit, a solution of the Reparation problem by means of foreign loans might have been found. If at the end of July the difficulties which arose in regard to the continuance of cash payments by Germany had been promptly dealt with, the situation, though by that time appreciably worse, might still have been saved. But now with the mark over 2,000 to the dollar unless some measure of confidence can be restored, the possibility of establishing budget equilibrium in Germany, even if Peace Treaty liabilities are entirely suspended, seems to be so remote that it is doubtful whether, even if the Allied Governments were to consent to reductions in their creances very much larger than the most moderate amongst them have hitherto been prepared to contemplate, the floating of German foreign loans would be a practicable proposition.

If deterioration proceeds at its present pace for another two months the position may be desperate before the Conference takes place.

If on the other hand an improvement could be effected, the atmosphere would be more hopeful; and even if a complete settlement could not be looked for in the immediate future, the foundations might be laid for useful action later.

There is, however, little chance of creating such an atmosphere until the present uncertainty as to the demands which are likely to be made upon Germany in respect of Peace Treaty charges in 1923 and 1924 has been removed.

It appears to Sir John Bradbury, therefore, to be the clear duty of the Reparation Commission to deal with the question of these demands without further delay with a view to such remedial actions as may be possible. Such action, so far from prejudicing the solution of the problems with which the proposed Conference is intended to deal, is rather a necessary preparation for approaching them.

THE FUTURE OF REPARATION.

I am convinced that unless immediate steps are taken to improve and stabilise the exchange value of the mark, a breakdown of the German financial structure which will be destructive to all hopes of obtaining reparation, either in cash or kind, for many years to come, if not for ever, is inevitable.

2. If action is delayed until German internal prices have adjusted themselves to the present exchange of 2,000 marks to the dollar (even if the rate goes no worse, as it almost certainly will do unless early remedial action is taken), the difficulties of establishing budget equilibrium, even if Peace Treaty payments both in cash and kind are suspended altogether, will be very great.

3. I am definitely of opinion that if matters are allowed to drift, such entire suspension will before very long become unavoidable, and that the longer the grant of it is delayed, the longer the period of suspension will have to be.

4. If it is delayed until the collapse of the German foreign exchanges is complete, I believe a break-up of economic and social order in Germany will follow, and, if this takes place, the process of rebuilding will be a very long and painful one, involving in all probability as an indispensable preliminary the entire remission of the reparation liability.

5. If any further increase of the floating debt could be stopped, there would at the present moment be no serious difficulty in the way of stabilising the exchange value of the mark at any reasonable figure (say, between the limits of 500 marks and 1,000 marks to the dollar) which those responsible might see fit to select. All that is necessary is that the Reichsbank should sell gold freely for paper marks at the rate selected.

6. Such a policy (always on the assumption that there will be no further addition to the floating debt) involves no serious risk of depleting the gold reserve.

7. The present circulation is, even at an exchange of 500 marks to the dollar, quite

inadequate to the needs of the country. Once the creation of new floating debt comes to an end, there are only three ways in which additional currency can be obtained by the public :

(a) By the discounting with the Reichsbank of German Government Treasury Bills now held by the public (amounting on 23rd September 1922 to about 75 milliard marks).

(b) By the withdrawal of existing deposits in the Reichsbank (which inclusive of liabilities classified under "miscellaneous" at the same date stood at 83 milliards).

(c) By the creation of new credit by the Reichsbank.

8. The maximum amount theoretically obtainable under (a) and (b) is 158 milliards; in practice, it would be much less, for, though no doubt the bulk of the Treasury Bills still held by the public would either be presented for discount or have to be replaced at maturity by new Bills discounted with the Reichsbank, the deposits are not capable of unlimited reduction.

9. It is certain, therefore, that recourse would have to be had on a very considerable scale to (c) [1], and, as the creation of new credits by the Reichsbank is entirely optional, the control of the Bank over the currency would be complete.

The Bank would then be able to protect its gold and maintain the foreign exchanges by the time — honoured methods — though necessarily in the first instance at the cost of an acute credit crisis.

Such a crisis has, however, to be faced in any case if serious attempts at financial reform are to be taken in hand.

10. The above plan is, however, only feasible if further inflation can be avoided — otherwise it will merely result in the Reichsbank gradually losing its gold without acquiring the control necessary to stop the rot.

11. Unless and until the credit of the German Government is re-established, inflation can only be stopped by covering Government out-goings by taxation.

12. With an exchange anywhere in the neighbourhood of 500 marks to the dollar, this condition could be secured without serious difficulty if Peace Treaty charges were completely suspended. I doubt, however, whether it is possible if any appreciable provision has to be made for Peace Treaty charges in 1923, or anything more than quite a modest provision in 1924.

13. Quite apart from payments in foreign currency, the paper mark payments in respects of deliveries in kind, even on the scale of this year, would make the task a difficult one,

(1) Indeed this is in fact already happening notwithstanding the continued expansion of the floating debt, by reason of the decline in the value of the mark having for the moment outstripped the progress of inflation.

The Reichsbank's holding of Bills and Cheques increased between 30th June and 23rd September from 4.8 milliards to no less than 43 milliards.

while any increase in the deliveries in kind above the present level would almost certainly make it impossible.

With an exchange of 1,000 marks to the dollar the task of balancing the budget would be still more difficult but not I think hopeless if the Peace Treaty charges could be entirely suspended.

14. On the other hand, a complete moratorium in respect of all Peace Treaty obligations, both in cash and kind, not only is impossible for political reasons but economically might have serious consequences to the Allied countries principally interested in reparation.

15. Is there no way out of the impasse?

There is one way, and I think only one. To the extent to which Peace Treaty payments, either in cash or kind, are called for in excess of the provision which can be made for them in the budget, credit facilities must be provided for the German Government.

In present circumstances, the only countries which have any inducement to provide such facilities are those receiving the payments.

16. My proposal is :

(1) That all cash payments for Peace Treaty charges (including costs of Armies of Occupation, reparation, compositions for restitution, clearing offices balances, and miscellaneous obligations), falling due between 1 January 1923 and 31 December 1924, should be met by German Treasury five-year bonds to be delivered to the Reparation Commission and distributed to the respective Governments interested in the same manner as the cash would have been distributed if payment had been made in cash.

(2) That in respect of all deliveries in kind, services rendered, etc., within the same period for which credit has to be given to Germany under the Peace Treaty the German Government should be notified month by month of the amounts debited to each Allied Government, and should be allowed to obtain from each such Government a guarantee of German Treasury five-year bonds to the amount so debited, less such percentage, if any, as the Reparation Commission may from time to time decide can be met without creating a deficit in the German Budget.

17. The bonds under paragraphs (1) and (2) could be identical in every respect. They would be expressed in gold marks and should be payable by the agents of the German Government in the capital of the recipient or guaranteeing Power in the currency of that Power, at the option of the holder, either at the rate of exchange ruling at the date of issue (which should be stated on the bond) or at that ruling at the date of payment (1).

(1) This option would no doubt in the event of a considerable improvement taking place in the gold value of a guaranteeing country be very costly to the German Government. In all the circumstances, however, I do not think it is unreasonable to ask the German Government to take the risk in consideration for the guarantee. If the bonds are to be readily negotiable in the guaranteeing countries it is obviously essential that their value in terms of the national currency should be assured. If in addition to this, they are gold bonds (even though the marginal gold value is not guaranteed) they would have a certain element of attractiveness (which would become considerable as German credit improves) as investments in countries of which the exchanges are not very stable.

18. The liability of the guarantors however should be limited to payment in currency at the rate of exchange at the date of issue, the holder to accept in the event of a German default such payment by the guarantor as a full discharge, all claims against the German Government in respect of the defaulted bonds to pass to the guarantor. If instead of claiming payment under the guarantee, the holder prefers to retain the defaulted bond as a gold claim against the German Government he should be at liberty to do so, the guarantee thereupon lapsing.

19 The bonds should bear interest at a rate high enough, regard being had to the credit of the guaranteeing countries, to enable them to be readily negotiated at par (say, 6 or even 7 %). They should have on their face a space for endorsement thereon of the guarantee of the recipient Government.

Those under paragraph (1) would be retained by the Governments concerned, and would be negotiable by them only under their respective guarantees; those under paragraph (2) would be returned, after the endorsement thereon of the guarantee of the recipient Government, to the German Government, and would be negotiable by that Government.

20. In order to increase the attractiveness of the bonds to investors it is for consideration whether the State Banks of the respective guaranteeing countries might not undertake at any time during the currency of the bonds to make advances against them up to (say) 80 %, of their guaranteed face value, receiving authority, if necessary from their respective Governments to treat them as cover for their note issues.

21. Any country called upon to guarantee bonds under paragraph (2) should be given the option of retaining the bonds on payment to the German Government of their face value in cash.

21 bis. It should be announced that, provided that the German Government carry out the requirements of the Reparation Commission in regard to balancing the budget and reform of the finances of Germany, similar arrangements will, to such extent as the Reparation Commission may think them necessary, be made for the years 1925 and 1926, and that, as soon as the position becomes sufficiently clear, and in any case not later than 1 July 1926, the Allied Governments will consider the whole question of the aggregate liabilities of Germany under the Peace Treaty with a view to their permanent adjustment to her capacity of payment and to their liquidation by a series of foreign loans.

22. Subject to the above arrangements, the reparation liabilities of Germany from 1 January 1923 would be governed by the Schedule of Payments, under which the cash liability for each year is the difference between the value of the deliveries actually effected and the full annuity liability.

This would have the result of giving an inducement to Germany to increase the deliveries in kind to the maximum possible figure, since the guaranteed bonds representing the value of the deliveries in kind would be placed at her disposal, while those representing the cash liability would remain with the Allied Powers.

23. From the point of view of the Treasuries of the Allied Powers the plan has the ad-

vantage of providing the same measure of budget relief as would have been derived from a complete execution of the Schedule of Payments provided they are prepared to guarantee, and to find a market for, the German bonds.

23 *bis*. No alternative policy seems likely to secure anything like so satisfactory a financial result.

23 *ter*. The policy of insisting on reparation payments and deliveries in kind without regard to their effect on the budget has already made the continuance of payments in foreign currencies impossible and jeopardized the deliveries.

To continue it will soon make the cessation of even the deliveries in kind inevitable and will create conditions in which measures of coercion, if applied, will not even cover their own cost.

On the other hand, the difficulties in which the Treasuries of the Allied Powers find themselves by reason of the disappointment, now inevitable, of the extravagant hopes formerly entertained in regard to the possibilities of reparation payments are very real difficulties.

They will indeed be mitigated — not aggravated as some seem inclined to contend — by a prudent handling of bad and doubtful assets and a recognition of the unwisdom of throwing good money after bad, but even so they will remain serious, and just as it would be suicidal for the Allies to press their claims against Germany to the breaking point of the latter, so it would be suicidal for the creditor Allies to press interallied claims to the breaking point of the debtor.

It is suggested therefore that in order to ease the general situation the Allied Governments should be invited to reconsider the existing Inter-Allied financial arrangements with a view to :

(1) The grant of indulgence in respect of Inter-Allied War Indebtedness during the period up to the maturity of the last issued German guaranteed bonds.

(2) The acceptance of the guaranteed bonds as between Allied Governments in lieu of cash for the purpose of adjustment of accounts.

(3) The taking into account of any losses incurred by the guaranteeing Governments by reason of their guarantee becoming operative in the ultimate arrangements for dealing with Inter-Allied indebtedness, which should be made at the same time as the German liability is permanently adjusted.

24. If the above plan commends itself to my colleagues, I would suggest that the Commission should pass a resolution approving it in principle subject to the observations of the German Government and the approval of the Allied Governments.

The approval of the Allied Governments is, I think, desirable before the plan is adopted because, though more favourable to them than a simple postponement for five years of the payments falling due in 1923 and 1924 (which would be within the competence of a majority decision of the Reparation Commission), it undoubtedly involves new elements,

such as the guarantee of the bonds by the Allied Governments, which are not contemplated by the Treaty of Versailles.

25. Its adoption should be made conditional on the German Government undertaking to impose by law upon the Reichsbank the obligation to sell gold at a fixed price — the figure to be determined by a mixed Commission of three, one member to be appointed by the German Government, one by the Reparation Commission, and the third to be an American financial expert agreed by the other two; the price, once fixed, to be incapable of increase, but to be subject to diminution on the demand of the German Government with the approval of the Reparation Commission.

26. The figure should have regard to the internal purchasing power of the mark (1), as determined by a comparison of average German and American prices for staple commodities, at the time the rate is fixed in order to avoid complicating the credit crisis which will certainly follow the introduction of the arrangement by a fresh disturbance of internal values.

Two or three weeks ago, a rate of 500 marks to the dollar would, I believe, have been suitable and practicable.

Now it may be necessary to go as high as 750 or even 1,000. In a very few weeks time a very much higher rate will almost certainly be inevitable.

27. Although I think it desirable that the German Government should retain the power, subject to the approval of the Reparation Commission, to lower the rate (*i. e.* to raise the exchange value of the mark), if in future it is thought wise to do so, it will probably be found that a new parity, once established, will be permanent.

It will be convenient, therefore to select a mark-price for gold which will make the mark-dollar or mark-pound parity a round figure.

28. The new Reichsbank law should also make suitable provisions, in accordance with recommendations to be made by the Committee above suggested, for the control of the note issue by requiring any new expansion to be covered in suitable proportions by gold or approved foreign currencies and commercial bills.

It should also prohibit any further issues of legal tender money otherwise than by the Reichsbank.

29. Such an arrangement would give the best possible guarantee for the rehabilitation of the German Budget position, since Germany would know that, unless the increase of the floating debt were arrested, she would lose her gold reserve and with it the last barrier between herself and final financial collapse.

30. If further guarantees on the part of Germany are thought to be necessary, I should see no serious objection to requiring the German Government to agree to pledge specific State

(1) Some elasticity may be desirable in applying this principle. A fall in paper mark prices if it comes before the recent catastrophic rise has become stereotyped would probably be salutary rather than otherwise.

assets of a suitable character to the service of the guaranteed bonds and to invest the Reparation Commission with powers of foreclosure in the event of default.

The problem of finding assets suitable for pledging will obviously be greatly simplified if the mark can be stabilised.

31. I do not myself believe that such guarantees would really improve the security, but they might have a certain political value, not only in the eyes of public opinion in Allied countries, but as indicating to the German people that any failure on their part to carry out the new arrangement will be followed by drastic action

I have never myself opposed the use of coercion to enforce obligations which Germany is really capable of carrying out — indeed, in the last resort it is the only alternative — but from the point of view of the restoration of German credit the fact of menaces of this character being regarded as necessary is an element of weakness rather than of strength, and unless the political advantages of indulging in them are thought to outweigh the financial disadvantages, I should prefer that recourse to them should be avoided.

32. I would further suggest that, in the event of the adoption of the new plan, the Allied Governments should at the same time consider the question of the desirability of reconstructing the Reparation Commission and transferring it to Berlin.

The interests of Germany and Germany's creditors are, in my opinion, on a long-sighted view, identical.

Recent history has, however, shown pretty clearly that the Reparation Commission as at present constituted is too much disposed to sacrifice the interests of Germany, both present and future, and the ultimate interests of her creditors to the immediate necessities of the latter, while the German Government tends to sacrifice the immediate interests of Germany's creditors and the ultimate interests of Germany herself to the pressing financial exigencies of the moment.

If German sovereignty is to be preserved — and unless the Reparation Commission is to undertake administrative responsibility for the Government of Germany and be given an army to support its authority, no other basis is possible — very intimate co operation between the German Government and the Commission is indispensable.

JAMES A. LOGAN JR.

Paris, 18 rue de Tilsitt.
27 October 1922.

PERSONAL & CONFIDENTIAL

My dear Ben,

In my letter of October 12th concerning the general reparation situation I forwarded a copy of the Bradbury plan for handling the reparation question as from January 1, 1923. Enclosed herewith is a translation of the Barthou, or French plan.

The fall of the Lloyd George Ministry has had its effect on the deliberations of the Commission. Bonar Law's policy concerning reparations is not clear. The recent fall in value of the French franc we feel is affecting the French attitude. Whether the resulting change in attitude, which is more of tone than substance, is temporary or permanent rests to be seen.

The enclosed French note was handed to the Commission two days after the fall of the Lloyd George Ministry, and according to Barthou it was a substitute for one originally prepared which had been drafted in "more specific terms". Barthou privately said that the French had made the substitution when they received news of the fall of the Lloyd George Ministry, as "they did not want to embarrass the new British Ministry". The French apparently felt that the presentation of a note on reparations "in specific terms" coincident with the coming into office of the new British Ministry was unwise as it might result in committing such Ministry to a reparation policy antagonistic to the French, and perhaps even serve as political capital for Lloyd George, whom they cordially dislike.

Bradbury, in the unofficial discussions, has been pressing for an early decision on the reparation policy to be followed by the Commission as from January 1, 1923. He maintained the Reparation Commission had power under Article 234 to deal with the question, and that it was important, in view of the present German financial position, that the question be disposed of at the earliest possible moment. He said that there was no question in the minds of any Delegate on the Commission of placing the amount Germany should pay during coming years at any figure below Germany's capacity. On this account the interallied debt question had no relation to the problem in hand, and there was no necessity for awaiting a possible Brussels Conference (to participate in which the British Government had not as yet signified its consent) where it was proposed to consider and endeavor to reach a solution of the reparation and interallied debt questions simultaneously. He then said that past decisions of the Supreme Council on reparation questions had not given happy results, and in particular pointed to the Schedule of Payments of May 5, 1921, as an instrument arrived at by political compromise with an entire disregard to economic and financial

principles, which had been forced upon the Commission after the Supreme Council meeting of May 1921. He maintained that it was clearly the duty of the Commission to handle and dispose of the reparation question.

2. ✓
Bradbury said the questions now before the Commission were, viz: First - Stabilization of the mark; Second - Balancing of the budget; Third - Form of "control" or "supervision". He maintained that all were in agreement on the first two points. He pointed out that there was no such thing as a stable currency without a balanced budget, and that no budget is possible without a currency which is, at least, relatively stable. The balancing of the budget could only be accomplished by the elimination of expenditure which is avoidable or which can be postponed, and by the increase of receipts calculated on the basis of a stable currency. Payments on account of reparation and all other treaty charges should be gradually incorporated in the budget, as and when they can be introduced without upsetting the balance, on the understanding that that part of the payments not thus provided for will be paid from the proceeds of paper mark loans for the deliveries in kind and the proceeds of loans in foreign currency for the payment of cash, so soon as confidence, restored by the balancing of the budget and the stabilization of the mark shall have permitted such loans to be issued. In Bradbury's view there could be no difference in opinion on such fundamental principles.

2. |
As to the third point; Form of "control" or "supervision", Bradbury held that the French proposal ignored the history of this question. He pointed out that, while the Treaty showed the intention to control, nevertheless, Clemenceau's letter of June 16, 1919, as President of the Conference of Peace, to the Germans gave the engagement of the Allied Governments as to how the Treaty was to be interpreted in this specific particular by the Commission. This letter was part of the contract. Under the foregoing the Commission had no power to exercise control of the German budget. He then said that the next stage of the history of this question dated from the decision of the Supreme Council of May 5, 1921, carrying with it the Schedule of Payments and the ultimatum. It was debatable according to Bradbury whether the acceptance by Germany of the conditions of the ultimatum modified the original arrangement. However, assuming it did, Article 7 of the Schedule of Payments provides for a Committee of Guarantees with certain duties of a limited nature. The more general duties are identical to those the Reparation Commission has under the original treaty or contract, and therefore subject to the same restrictions. Such restrictions specifically state that the Reparation Commission is not authorized to interfere in German administration. The final stage dated from the Reparation Commission's decision of March 21, 1922, granting a partial moratorium to Germany for the calendar year 1922. The Commission at the time had the strong impression that its powers of supervision were not sufficient to assure proper management of German finances and the Commission therefore made the granting of a moratorium conditional on agreement to an extension of supervision (perhaps legally doubtful). Germany then, in exchange, agreed to impose new taxes and also to grant certain specific rights of criticism and supervision over questions of currency inflation and exportation of capital. Bradbury pointed out that the Committee of Guarantees had just completed the installation of its machi-

nery of "supervision" under the Commission's decision of March 21st 1922, but that its effect could not yet be determined.

Bradbury, on the foregoing basis, argued that the Commission was without legal authority to install the measures of control contemplated by the French memorandum without agreement of the German Government. He maintained that this was the legal position of the question, but admitted that it was perhaps possible for the Commission to make its control more stringent in exchange for another moratorium, or for other concessions, on the general lines of the March 21, 1922 decision. In other words, it could only be done contractually. He said that on many previous occasions he had expressed his opinion that the only result of forcing more control on Germany would be to make the Reparation Commission the Government of Germany and require an army for its support.

Bradbury then turned to the question of the French plan for making their control effective. He said their plan suggests that if Germany refuses to take any measures demanded, the Commission shall report "default". He pointed out that such a refusal under the contractual agreement did not necessarily involve "a default" under the Treaty, and that on purely legal grounds the only remedy would be to withdraw the concessions. He argued that the French plan if accepted was a confession that the Versailles Treaty had broken down, and therefore the Reparation Commission should abdicate in favor of the Governments who should themselves take control of German finances. In his judgment under such circumstances it would be necessary for the Allied Governments to proceed forthwith to the negotiation of a new Treaty.

Bradbury then referred to the financial side of the French plan, stating that it was difficult to imagine how the stabilization of the mark could await a balancing of the budget. According to the French plan, the three directions to be given the German Government were:

Immediate reduction in expenditure;

Immediate increase in receipts; and

Forthwith stop borrowing.

The German Government is now borrowing 3 billion marks a day (inflation of currency). How can it stop at once? In Bradbury's judgment, the day following the receipt of any such directions from the Reparation Commission, the German Government would either resign or violate them. Bradbury said that the French reply to his argument would be that it was not expected that these instructions would be put in force on any given day. This, however, would merely show that the real intention should be studied and stated. In Bradbury's judgment, the chance would be that notwithstanding whatever delay might be allowed, these conditions would render execution impossible on whatever day fixed.

Bradbury then turned to the French proposal for the Committee

of Guarantees to take its seat in Berlin, stating that this proposal was an "old friend" which on a previous occasion had almost provoked the resignation of all the members of the Commission. He admitted that, if the French plan of control be put into operation it would have to be exercised in Berlin by a responsible body. He then pointed to the delays and inefficiency bound to result under a system of having the Reparation Commission in Paris with a subordinate Committee of Guarantees in Berlin. In his opinion, this would not work. If the French plan of control were adopted, the controlling body must be responsible and at Berlin. He, therefore, could not understand the previous objection of the French Government to the transfer of the Reparation Commission from Paris to Berlin. As an alternative he suggested that it might be possible to move the Committee of Guarantees to Berlin and give it all powers of the Commission, except purely judicial ones, thus leaving the Reparation Commission in Paris as nothing but a Court of Justice under the Treaty.

Bradbury concluded his argument by proposing that the Commission itself proceed forthwith to Berlin to study the situation on the ground; summing up the situation within the Commission as follows: That the French think their plan will improve the mark, while Bradbury thinks it will not. As a counter-proposal, Bradbury suggested asking the Bankers Committee for their opinion on the question.

Barthou at first replied to Bradbury's arguments by stating that according to his understanding the British Government at the time of the London Conference had agreed to a conference at Brussels to discuss the reparation and "corelated interallied debt" questions and that therefore precipitate action of the Commission on the reparation question was unnecessary. He proposed that the effort be made to advance the date of the Brussels Conference. He referred to the records of the London Conference and particularly to Lloyd George's statement at the meeting of August 15th 1922. From the record, as read aloud by Barthou, it appeared that Lloyd George in an endeavor to prevent a complete failure of the London Conference had adopted the Italian compromise suggestion of holding a subsequent conference at Brussels. He suggested the following "hold-over" formula, viz: First - An adjournment of the London Conference until the return of Van Horne and the other Allied Treasury representatives from the United States, it being understood that these gentlemen would have returned to Europe towards the latter part of November and would bring with them the "feel" of the American Government concerning the Interallied debt question. Second - All questions as to reparation payments up until the conclusion of the Brussels Conference to be left to the Reparation Commission without Governmental interference. Third - All guarantees which the Committee of Guarantees could take over from the German Government under the Schedule of Payments to be actually transferred to the Committee of Guarantees. Fourth - No discussion of any kind on the position of the interallied debt question as between the Governments until the Brussels Conference. Barthou maintained that Poincaré had accepted the Lloyd George proposals before the London Conference broke up and on this account the British Government was committed to participation at Brussels. On the other hand Bradbury maintained and as far as I could gather from the record which was read

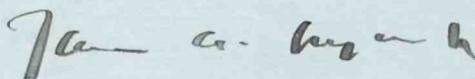
aloud, Poincaré had terminated the London Conference before any technical commitment of the British Government to participate in the Brussels Conference.

Barthou was evidently impressed and expressed agreement "en principe" with most of what Bradbury had said, though making the usual reserves as to details. While not saying so directly, we gathered that he was in accord with the Bradbury thesis concerning the stabilization of the mark, the balancing of the budget with the incident necessity of bringing reparation and other Treaty charges into the compass of a balanced budget. He tentatively suggested payments on reparation and Treaty account being augmented by internal and external loans outside the Budget. When pressed, he however admitted that practically the internal and external loan phase could be considered as being involved in a balancing of the budget - receipts from the loans appearing on the credit side of the budget with interest and amortization charges appearing on the debit side. He maintained the French position as to the necessity of stringent financial control. He was obviously embarrassed by Bradbury's suggestion of reference of the French and British plans to the Committee of Bankers for advice and recommendation.

On the foregoing account he expressed himself as in agreement with Bradbury's suggestion for the Commission of Reparations to go to Berlin to study the entire question on the ground. The Commission is leaving Paris October 29th for Berlin, for as yet an undetermined visit but one which it is believed will last about ten days. We are very hopeful of some constructive results from this visit and this particularly in view of the more moderate tone of the controversy between the French and British views.

Delacroix did not participate actively in the recent discussions. However from what he did say during the discussions and from what he said privately outside, it is quite apparent that the Belgian Government fully supports the general line of the British plan though not supporting all its details. Bradbury in this latter connection expressed himself as not being wedded to all the details of his original plan and prepared to support any sound change which might be proposed; he particularly referring to the Hirsch plan of an internal gold loan in Germany to be used in supporting the mark. He said that he had not studied the Hirsch plan in detail but that it had impressed him as having certain merits and that something along its lines should be studied by the Commission during their approaching visit to Berlin. The Italians may be counted upon to support the British plan.

Faithfully yours,



JAL/BD
Encl.

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

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Nov. 2, 1922 192

TO Mr. Snyder

SUBJECT: _____

FROM Governor Strong

With this I am sending you three very interesting and illuminating communications from Colonel Logan, which are strictly personal and confidential and which I will ask you to return after reading.

Some comments may occur to you in this connection so I am also sending you a copy of my last letter to Logan which please return with the papers.

BS.MM

att.

Confidential

November 2, 1922.

My dear Logie:

I have just finished reading Dr. Hutchinson's memorandum. It is certainly the most instructive and detailed of any that I have read upon the Russian situation. I was delighted to have the privilege of reading it. Just one comment stands out in my mind very prominently - How is it possible to consider such a plan as that described under paragraph 4, page 4, which one might describe as the automatic plan for Russia, without taking into account the almost unescapable development of German penetration into Russia upon a very extensive scale?

I am not suggesting that this is a development to be resisted necessarily, but I am surprised that Dr. Hutchinson does not specifically refer to that as the inevitable accompaniment of the automatic plan.

Yours sincerely,

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

BS.MM

CONFIDENTIAL

November 2, 1922.

My dear Logie:

Absence and a very busy period has prevented me keeping up with all of my correspondence and I regret that I have not been able to send you a decent reply to some of your recent letters. I am just now reading Dr. Hutchinson's report, which is indeed intensely interesting, but I shall not comment upon it until I have read it all through carefully. This kind of material is most helpful and it is thoughtful of you to get it to me.

Now as to your letter of October 17. Since it was written the political turnover has been completed in England, and it will - unless I am much mistaken - result in a kaleidoscopic change in many matters in which you and we are interested, and quite certainly it seems to me in the matters discussed in your letter of October 17th.

Of course, Bergmann's plan is a much sounder one in principle because it does measure reparation payments by a standard of capacity which has never heretofore been the case, at least not to the extent required to meet the situation.

I am not at all sure that Bergmann's measure of capacity is altogether sound. It impresses me as being a little bit guess work. One weak point that occurs to me being this - no nation which is dependent for its export trade upon manufactures rather than upon agriculture or mining production can sustain an export trade, and especially increase it, without a corresponding increase in importation of raw materials.

Germany's ability to pay reparations measured by a percentage of the exports, without regard to the need for imports, it seems to me is partly fallacious, especially in a country which has been exhausted by war, where the shelves are bare, and where domestic consumption will be supernormal until the existing vacuum in goods - which may be otherwise expressed as the standard of living - is restored to a sounder basis than is probably the case in Germany to-day.

It seems, on the other hand, however, that Bergmann's proposal is based upon the principle that we have always felt, should apply to reparations, namely, upon Germany's capacity to make foreign payments as distinguished from domestic payments.

There is much to be said for a gold loan, if it is preliminary to two other things: (1) Such a limitation on foreign payments imposed upon Germany as will keep them reasonably within her capacity.

(2) Such an improvement in the domestic economy as will result in a balanced budget.

Once these two objects are attained - or at least are assured - in the estimation of the public, then those who have hoarded foreign currencies will be driven to convert them back into marks fearing that marks will advance in price, and no doubt a considerable part of these balances, if a loan were properly handled, could be driven or induced to investment in a gold loan.

Attempts to tinker with the currency, to have an issue of gold notes alongside of paper notes, or anything of that sort is bound to fail unless these other conditions are first dealt with. At least that is our conviction here, and the more that we see the situation develop in Germany, the more convinced we are that it is sound. And this not only applies to foreign payments in cash but in goods as well, because the exportation of goods for reparation payments imposes the obligation upon the German Government to pay in domestic currency, the effect being just the same as is the effect of purchasing foreign currencies with domestic currencies - it simply inflates the note issue indirectly instead of directly.

Knowing nothing whatever of what the British Government proposes to do in regard to reparations, I hesitate to venture anything more than a most general surmise, which would however be as follows:

The new Prime Minister has announced that the program of the new government will be tranquility, no further foreign entanglements that can be avoided, and the withdrawal from existing commitments which are embarrassing as soon as that is feasible. To my mind that would point to a development somewhat as follows:

Strong representations to the French Government to make a sane adjustment of reparation payments. Failing success in this I should suppose that they might indeed withdraw from representation on the Reparations Commission, and follow that possibly by the withdrawal of troops from the Rhine, and then let the responsibility rest definitely upon France for any measures in the nature of sanctions or otherwise, taken by them to impose what the British would regard as an unsound reparation plan upon Germany. I should likewise suppose that they would send some one here promptly to negotiate for the funding of the debt, and that the plan of funding, while not possibly within the limitations of the funding bill, would nevertheless be such as would ultimately effect a complete repayment of the debt and interest, and be satisfactory both to public opinion and to Congress. With that accomplished - which should not be very difficult - I could understand the next step being for the British in co-operation with our government attempting a general scheme for the adjustment of all the inter-allied debt, which might even contemplate an independent treatment of reparations by Great Britain, leaving France to work out her own problem with Germany directly.

This is the roughest kind of surmise from a great distance, and I am sending it to you simply to indicate a line of thought that might be worth following up if early developments indicate that it has any foundation. Might this not be the means in the end of a more cordial feeling, first, between the British and ourselves and, second, between the British and the French, and might it not be the means also of a real awakening in France to the real position of her own finances and of her claims against Germany?

The election contest here is waxing hotter every day. I was in Cleveland this week and was told by a very shrewd fellow who watches political affairs closely that he thought the Democrats would return their present Senator Pomerene and

November 2, 1922.

defeat the Republican candidate, and that Carmi Thompson who is the Ohio member of the Republican National Committee and who is running for Governor would be soundly defeated. This in the President's own State. I repeat this for what it is worth. It is rather significant, however, that when Thompson published the list of contributors to his campaign account, some smart fellow added them all up by classes and disclosed the fact that 70 per cent. of the fund came from coal operators and miners, (Thompson himself being interested in the coal business) and that Ohio was paying \$11.00 a ton for coal. Of course, it is a very unfair conclusion to draw, but it undoubtedly hurt his campaign. There is an immense drive against the Republican Party on the ground that the new tariff imposes tax in living costs upon the American people of somewhere between \$3 to \$4 billion. The whole Cabinet just now seems to be out campaigning, and Mr. Hughes is dealing some stout blows in New England and New York. The results in New York State are uncertain, but the trend just now seems to be in the direction of a Democratic Governor - Al Smith; but probably the reelection of the Republican Senator Calder. The situation in other parts of the country is exceedingly uncertain, but I think the Democrats are bound to make large gains in the House with the possibility of some gains in the Senate. I only hope that it is not a landslide leaving the President with a minority in Congress, but that is far from being impossible.

Please give Basil my best regards, and the same to you,

Yours sincerely,

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

BS.MM

(COPY) NDS

GREEN

Paris

Dated November 4, 1922.

Recd. November 4, 4.20

Secretary of State,

Washington

449 November 4, 5 p.m.

B 787 miscellaneous receipts since October 21st dye-
stuffs \$ 55,913 credit Belgium. Boyden

HERRICK

CSB

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 6, 1922

Governor Strong

SUBJECT: German SituationFROM Mr. Snyder*Reparations*

As you know, I got the impression a year ago last summer, in Germany, that industrial conditions in that country were steadily improving; and nothing I have seen since has changed this view. If this be true, then Germany's difficulties are almost purely governmental and currency difficulties, and little more.

Of course I believe that the total amount assessed against Germany by the London Protocol was absurd, and a flat violation of a definite agreement at the Armistice, not to include pensions in the reparations demand. But, on the other hand, I don't believe that the amount asked of Germany, as an annual payment now, was at all beyond her capacity to pay.

I cannot get away from the impression that the whole present situation was more or less *promoted* permitted by a set of crafty and customarily dishonest and bungling politicians, aided and abetted by a just revolt on the part of the German people against the outrageous reparations assessment.

Now, if these are anywhere near the facts, is not the Reparations Commission, including your friend, going at the matter in the wrong way, and is not the real remedy in such a matter as this "pitiless publicity,"—with accurate facts and figures?

Yes!

ACKNOWLEDGED

DEC 1 1922

B. S.

JAMES A. LOGAN JR.

Paris, 18 rue de Tilsitt
13 November 1922.

PERSONAL & CONFIDENTIAL

My dear Ben,

The Reparation Commission arrived in Berlin on October 31, 1922 and left Berlin for Paris November 10, 1922. During this period the Commission witnessed the fall of the mark from four thousand to the dollar to eight to nine thousand, and the German floating debt gradually passing from four milliards per day to six milliards per day.

Very little in a tangible way was accomplished in Berlin otherwise than a certain education of Barthou to a realization of the seriousness of the situation and its possible consequences. While not committing himself, Barthou nevertheless did not hesitate to express himself as being seriously concerned with what he had seen and desirous of returning to Paris at the earliest possible moment to put the situation as he saw it to Poincaré. Barthou's attitude had an interesting reflection on the attitude and expressions of his French assistants. Heretofore, these Assistants have been most circumspect in all their personal conversations concerning reparation matters. During the latter part of the visit and on the train returning to Paris their whole tone had changed, and in personal conversations they freely admitted and discussed the necessity for a change in French policy as the only means of preventing not only the financial and social collapse of Germany, but also perhaps the financial collapse of France. One of Barthou's principal assistants said that Barthou was so stirred that if Poincaré did not adopt a more reasonable policy a split between the two could be expected. Too much importance should not be attached to these personal conversations with French subordinates. However, they were impressive and have some significance as showing a change in point of view which they would not express had not some intimation been received on a similar change of feeling of the head of the French Delegation.

We have not been long enough back in Paris to get the real "feel" of French opinion. There is to be an official meeting of the Commission this afternoon, a summary of which will be forwarded by separate letter which should give some indication of present French opinion. This letter refers only to happenings in Berlin.

The Reparation Commission upon its arrival in Berlin called on Chancellor Wirth. It had been agreed between the Delegates that this call would be a formal one at which no discussions of detail would take place.

Barthou opened the meeting by informing the Chancellor that the Reparation Commission had come to Berlin for the purpose of informing itself on questions concerning the stabilization of the mark, budgetary balance and the Floating Debt. He asked for the co-operation of the German Government and concluded by stating that the Commission when it had completed its inquiry would return to Paris for the purpose of considering its findings. Wirth in reply, after formally welcoming the Commission stated that every possible step would be taken by the German Government to expedite the work of the Commission. He then in general terms, reading from a carefully written document, pointed out the precariousness of the present German situation not only from its financial and economic aspects but also from the social point of view. He said that the German Government was very much concerned and on its own initiative had invited foreign economic and financial experts to meet in Berlin for the purpose of advising the German Government in the present situation. He said the Committee of foreign experts included Keynes, Cassel, Jenks, Dubois the Swiss Banker, Brand the London banker, Vissering the Governor of the Bank of Holland, and Kamenka the Russian banker and economist. Wirth said that, while this Committee had no relation to the Reparation Commission, the German Government stood ready to place the recommendations received from this Committee at the disposal of the Commission. (In this connection see Exhibit A. Address of Chancellor Wirth to the Committee of Germany's foreign experts). After the foregoing formalities had terminated it was arranged that the Commission would meet Hermes the same day for the purpose of commencing its detail inquiry.

At the first meeting with Hermes the German budgetary situation was discussed in the light of the situation created by the fall of the mark. Hermes outlined the situation of the Budget for the German fiscal year 1922 (April 1, 1922 to March 31, 1923). As preface to his remarks, he said that his comments, outlined below, were based on figures of actual paper mark values up to September 1, 1922, but as from September 1, 1922 to the close of the fiscal year his comments were based on 3,000 paper marks to the dollar, or approximately 700 paper marks to one gold mark. It appears needless to point out how questionable this latter basis is in the present situation. Hermes comments on the Budget for the current fiscal year were divided into three parts: First - Ordinary, Second - Railways and Posts, Third - Execution of the Treaty.

As to Ordinary.- The depreciation of the mark itself without any increase in taxation will automatically increase paper receipts from 115 billions as originally estimated to 336 billions paper marks. Such increase in receipts, according to Hermes, will approximately cover all expenditures but will leave no surplus.

As to Railways and Posts.- Posts. A new tariff has been adopted but the effect is not yet felt. The deficit as at present estimated will reach 33 billions paper marks. Hermes said he was struggling with the Post Office Department to raise Posts and Telegraphs rates so as to cover the entire expenditure, and was hopeful of results. Railways. So far as ordinary operating expenses were concerned, during the first three months

of the fiscal year the Railways had accumulated a surplus of 2.5 billions paper marks. Up to September 1, receipts had exceeded operating costs but not at the same rate as during the first three months. Hermes hoped that with the increased tariffs proposed receipts would cover operating costs. He however pointed out that the capital expenditures (not included in the ordinary operating expenses) which had previously been estimated at 17 billion paper marks would fall short of meeting actual charges on this account, which he now estimated as being at a minimum 27 billions paper marks. In other words a forecasted and uncovered deficit of 27 billions paper marks.

As to Execution of the Treaty. - It had been assumed that a surplus of 16.5 billions paper marks in the Ordinary budget would be available for Treaty charges. Such surplus had however entirely disappeared and therefore Treaty charges could only be covered by further inflation plus receipts from the Forced Loan estimated at 45 billions paper marks. Therefore, according to Hermes, there is an anticipated deficit in this part of the general budget of 316 billion paper marks. The latter figure included all Treaty charges up until December 31st 1922, plus cover for the redemption of the six months German Treasury Bills held by Belgium falling due before March 31st 1923, but included no allowance for reparation or other Treaty charges during the period January 1, 1923 - March 31, 1923.

Hermes concluded his comments on the budget for the German fiscal year 1922 by drawing attention to the total budgetary deficit under the two headings being 376 milliard paper marks (calculated only on the basis of 3,000 marks to the dollar), maintaining that such deficit could only be covered for the reasons hereinafter set forth by an at least corresponding increase in the Floating Debt. He also pointed out that his figures took no account of the shortage of the German cereal supply and the consequent problem now facing the German Government of covering its cereal requirements, estimated at 2 million tons, during this cereal year. He stated that the necessity of the purchase of such cereals plus the expense on account of possible food subsidies would necessarily throw out the budgetary figures he had given and "gravely" increase the deficit.

The figures given by Hermes above are open to criticism and question. Certain items of expenditure should be eliminated or postponed. Certain increases in rates of taxation should also be made. The Hermes figures are now being studied in detail by the experts of the Committee of Guarantees whose report will follow when completed. However there is a general feeling in which we share that the Hermes figures of budgetary receipts, even with the factor employed, are too optimistic and that this more than offsets over-estimates in expenditure. In other words in our judgment, under present conditions and with the detailed figures indicated open to question, Hermes figures nevertheless fairly accurately portray the present budgetary position of Germany.

Attached herewith as Exhibit B are copies of certain memoranda handed to the Commission by the German Government on November 4th concerning

certain details of the budgetary situation for the fiscal year 1922.

Hermes was asked to submit a rough estimate for the Budget for the German fiscal year 1923 (April 1, 1923 to March 31, 1924). Hermes in reply quite reasonably maintained that it was impossible to make any estimate so long as the mark was not stabilized, and so long as treaty charges during the year remained unfixed. He, however presented a memorandum budget estimate (See Exhibit C) based on 3,000 paper marks to the dollar so far as external expenditures and receipts were concerned, and on 700 paper marks to the gold mark so far as expenditures and receipts were alone controlled by the internal purchasing power of the mark. The figures of receipts and expenditures of August 1922, were used as the factor for determining receipts and expenditures during the fiscal year 1923. For the practical reasons indicated by Hermes no importance can be attached to the figures appearing on this German memorandum budget. It is, however, interesting as approximating the theoretical aspect of the situation resulting from an execution of the Treaty running the figure of deficit into the trillions (one thousand of billions) of paper marks even under the entirely unfounded premises of 3,000 paper marks to the dollar.

At the next meeting with Hermes on November 1 the question of the Floating Debt was considered (See Exhibit D submitted by the German Government to the Commission on November 4, 1922). Referring to an inquiry at the previous meeting as to why Germany had increased its floating debt beyond the normal maximum contrary to the decision of the Reparation Commission of March 21, 1922, Hermes stated that from March 31, 1922 to June 1, 1922, the floating debt had actually been reduced from 125 billions to 99.9 billion marks, with the result that on June 30 the agreed "normal maximum" was only exceeded by 1.625 billion marks. He said that the German Government had hoped to cover this excess by issuing long term Treasury bonds that were to be placed on the German market. Unfortunately, in the beginning of July considerable stringency developed in the money market concurrently with a further slump of the mark with the result that nearly 26 milliards ~~of~~ Treasury bonds in the possession of the public returned to the Reichsbank during the period March 31 to July 31. This showed clearly that it would be useless to look for cover for the excess through issuing new long term Treasury bonds. In consequence of further serious depreciation of the mark the situation developed unfavorably so that the "normal maximum" was exceeded on July 31 by over 8 billion marks, on August 31 by over 21 billion marks, and on September 30 by over 123 billion marks. Under the terms of the March 21 decision it was technically incumbent on the German Government by September 30th to retire the excess of 123 billion marks of its floating debt. The German Government had based its consent to keep its floating debt under the figure of the "normal maximum" (See R.C. Annex 1462) on the presumption that a foreign loan would be forthcoming. The foreign loan had failed, and the German Government under the altered conditions was therefore not in a position to either retire the excess or to "propose other measures to the Reparation Commission". Hermes admitted that it was the duty of the German Government to eliminate deficits in the Railway and Postal Services, but due to the continued fall in the mark it was impossible to fix tariffs to cover such deficits. Due to the slump of the mark it was also impossible to float

an internal loan and, in his judgment, no such loan could be floated until the mark was stabilized. He felt that by checking the deficits in the Railway and Postal Services, some relief would be given to the position of the floating debt. It was, however, "the considered opinion of the German Government" that if a foreign loan were not possible escape from complete financial collapse in Germany was difficult, if not impossible, to prevent. At this moment Bradbury pointed out that even under the most favorable conditions it was extremely doubtful whether the German Government could float a foreign loan. Bradbury therefore asked Hermes if he intended to imply that in the event of failure of such loan it was "the considered opinion of the German Government" that a financial collapse followed. Hermes quickly replied that both he and the German Government, from purely patriotic motives, would never fold their arms and accept a financial collapse without a fight.

At the succeeding meeting, November 2, the question of the stabilization of the Mark was considered (See Exhibit E submitted by the German Government to the Commission on November 4, 1922). Hermes said that the German Government held that the stabilization of the mark was the problem requiring immediate attention. The balancing of the budget was entirely dependent on the stabilization of the mark. With the mark at 4,000 to the dollar (which it had reached that day) it would scarcely be possible under any conditions to have budgetary receipts equal expenditure. A small gold loan floated by the German Government alone would not be sufficient to stabilize the mark and would do more harm than good. A large loan was required. If it were possible to stabilize the mark at some reasonable figure it would be possible to balance the budget within a relatively short time, but even under such conditions the German Government would not be in the immediate future be able to make any cash payments on account of treaty charges, and even a programme for the most limited volume of deliveries in kind if at all possible would have to be carried by internal loans. Hermes maintained that the questions of reduction in government expenses and increase of revenue had little to do with the question of the stabilization of the mark. He said that without the mark stabilized, endeavoring to raise taxes or resort to "forced loans" only leads to encouraging the export of capital with its resulting loss to the German financial position and those having equity in reparations.

The foregoing, together with statements incorporated in the various memoranda above referred to and filed as Exhibits herewith, fairly summarizes the position with the German Government and the scope of the Commission's inquiry up until about November 5th.

The Commission then taking advantage of a statement made by Hermes that "the German Government intended submitting concrete and precise proposals" pressed for the same (See Exhibit F. Copy of letter from the Reparation Commission to the German Government dated November 6, 1922). In the same letter the Commission formally noted the engagements given orally by Hermes assuring the "unfettered supervision by the Committee of Guarantees of the finances and exports of Germany". The Committee of Guarantees had encounte-

red some difficulties in actually operating under the plan of supervision or control agreed to jointly by Hermes and the Committee of Guarantees last July (See Annex 132). These difficulties were due to active opposition of Bureau Chiefs within the German Ministry of Finance, who thoroughly resented all efforts of the Committee of Guarantees to actually institute the agreed measures. In deference to Hermes, it must be stated that due to his illness he had not been in close touch with this phase, and as soon as he heard of the difficulties he promptly took steps to correct them. The net result of these interchanges of views on control or supervision is that, for the present at least, the Commission is in accord to abide by the existing July agreement and that while steps were taken to make the agreed measures effective, no effort was made to extend their scope.

It was felt by the Commission that the German Government in its weakness was endeavoring to force the Commission to assume responsibility in the present situation. The Commission therefore in its letter of November 6, after reviewing the German situation as it saw it concluded by stating "It is for each party to assume the initiative and the responsibilities which are appropriate to it. The Reparation Commission, if the plan for a loan or any other plan were put before it, would not refuse to examine and pronounce upon it in such manner as is consistent with its jurisdiction. But it is the duty of the German Government, which has moreover summoned international experts, to submit a plan to the Commission. The latter still ventures to hope that after anew effort and a serious examination the German Government will at a very early date put it in possession of the proposals foreshadowed in its first note".

The German Government in reply (See Exhibit G. Copy of letter from German Government to Reparation Commission dated November 8, 1922) transmitted a plan for a Syndicate for the Stabilization of the Mark signed by Messrs. Vissering, Dubois and Brand, and having attached to it an expression of personal opinion by Brand, concerning the possibility of the London money markets participating (See Exhibit H). In accordance with our information the recommendation of these gentlemen to the German Government were of a confidential character in which they expressed only their personal views and in no way committed their Banks or Governments. They were, therefore, somewhat embarrassed by Wirth not only using the original texts of their personal recommendations when transmitting the plan to the Commission, but also simultaneously turning it over to the Press.

Both Barthou and Bradbury expressed disappointment with the German letter of November 8 in that, while dealing in somewhat more detail with possible solutions, it did not, nevertheless, present the concrete and precise proposals which had been promised. It was becoming more and more obvious that Barthou wanted to return to Paris to talk with Poincare and that Bradbury was disturbed by the British political situation, and that both thought little further could be accomplished by prolonging the stay of the Commission in Berlin. Therefore, the Commission formally advised the German Government that "in accordance with the decision taken before its departure, the Com-

mission which came to make an enquiry will examine on its return to Paris the proposals which you have put before it, or such further proposals as you may think it necessary to submit on the comprehensive questions that it has discussed with your Government" (See Exhibit I. Letter from Reparation Commission to German Government dated November 9, 1922). The Commission while leaving Berlin nevertheless adopted Mr. Boyden's suggestion by adding the words underlined.

Just before the Commission left Berlin on November 10 the German Government transmitted reports which it had received from its Committee of Foreign Experts, viz: Exhibit J. Report signed by Messrs. Keynes, Jenks, Cassel and Brand. - Exhibit K. Report signed by Messrs. Vissering, Dubois, and Kamenka. The two reports while not dissimilar in substance nevertheless vary in particulars. The "Keynes, Jenks, Cassel and Brand report" holds in effect that the mark may be stabilized at a figure somewhere approaching its actual internal purchasing power, and the budget balanced without recourse to a foreign loan or support. The "Vissering, Dubois and Kamenka report" holds in effect on the contrary, that the mark must be very considerably raised in value over its actual internal purchasing power and that a substantial foreign loan or support is necessary.

Loose in file

The foregoing, with the Exhibits, summarizes the Commission's inquiry in Berlin. It can be seen that, while the German Government was fully alive to the seriousness of the situation, its policy was vacillating and undetermined and that the Government was therefore wholly unprepared to submit or support any definite plan. It was currently reported, and readily apparent, that Chancellor Wirth's political existence was precarious; that there was great dissention within the German Cabinet, and no real leadership. The Commission was impressed with the resulting general air of helplessness, and we all felt that no real progress could be made until the German internal political situation was cleared.

Faithfully yours,

Jan A. L. Jr.

JAL/BD
Encls.

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

ACKNOWLEDGED

DEC 1 1922

F. R.

JAMES A. LOGAN JR.

Paris, 16 November 1922.
18 rue de Tilsitt.

Personal and Confidential.

My dear Ben:-

Our last letter of November 13 summarized reparation happenings during the recent visit of the Reparation Commission to Berlin. Since its return from Berlin two unofficial reparation meetings have been held: one on November 13 and one on November 15. Little, however, was accomplished for the following general reasons: First. - In view of impending elections in Great Britain no future British policy could be forecasted; Second. - The French desire not to prejudice their possible position with a new and as yet unelected British Ministry; Third. - The impending and actual fall of the Wirth Government leaving the German political situation clouded. There was, however, some general discussion on the question of control and on the reports of the German Government's Committee of Experts (See Annexes J and K, with our letter of November 13), and on the proposal of the German Government to the Commission of November 14, 1922, (See Exhibit A herewith).

So far as the control or supervision phase was concerned, Barthou's attitude was most conciliatory. He said he appreciated fully the position of the Commission and its reasons for not desiring to have the Committee of Guarantees sit permanently in Berlin. On the other hand, he suggested that the Delegation of the Committee of Guarantees now in Berlin needed more support than it was receiving at the present time. He suggested as a compromise that the various members of the Committee of Guarantees, in rotation, (say for a period of one to two months) sit in Berlin so that the Commission be always represented there by not only a member of the Committee of Guarantees, but also by an Assistant Delegate of the Commission. Bradbury then suggested it was too early as yet to make any definite decision on this point, and proposed that if the Commission or the Governments reached a decision on the whole reparation question within a comparatively short period, the whole Committee of Guarantees should go to Berlin and stay there from four to six weeks, putting in actual and practical working order the system of supervision agreed upon last July. While no definite decision was reached, Barthou seemed to be in accord with Bradbury's views and willing to accept his arrangement.

On November 14 the Commission received from the German Government the "concrete and precise" plan which it had invited in its letter of November 8 to the German Government when leaving Berlin (See Exhibit I, with our letter of November 13). This letter (See Exhibit A herewith), together with the report of the German Government's Committee of Experts, was discussed during the unofficial meetings but no action was taken and we contemplate

that none will be until the end of this week or the early part of next.

Bradbury in commenting on the situation stated that the Commission could not as yet appreciate the political effect that the fall of the German Government would have on the new German proposal, and therefore it was necessary to await some confirmation of this proposal from the new German Government, when formed, before taking definite action. As regards the substance of the proposal, Bradbury was not in accord with all its details, and in particular the proposed plan for the stabilization of the mark which practically follows the suggestion in the Vissering-Dubois-Kamenka report (See Exhibit K, with our letter of November 13). Bradbury felt that the Keynes-Jenks-Cassel-Brand report (See Exhibit J, with our letter of November 13) had more points of merit. He felt that the Vissering-Dubois-Kamenka report was not thoroughly understandable, lacking preciseness, and that the hope expressed in it of raising the mark to the value indicated under existing conditions was fantastic and, in his judgment, money advanced under such a plan would be lost. In other words, in Bradbury's view, the Reichsbank would lose the one-half of its metal reserve it put up, and the Bankers to protect themselves would necessarily have to take over practically all available reparation assets, thus leaving nothing for reparations when the affair finally broke down. He, therefore, felt that the German Government should be invited to submit a new plan or modify the present one. Barthou admitted that the new German proposal contained a "concrete and precise" plan, but requested the permission of his colleagues to refrain from discussion on it at the present time. He said that Poincare contemplated making an important declaration in the French Parliament on Friday, November 17, that Poincare, himself, was not quite sure what position he would take and therefore believed better results would be obtained by not attempting discussion until after Poincare's policy had been outlined. Bradbury then said his own position vis-a-vis the new British Government which would come into office after the British elections was uncertain, that he proposed going to London the night of November 15 to get in touch with the new Government, returning to Paris Friday, the 17th, when he would be in a better position to speak, and, therefore, was in agreement with Barthou to postpone further consideration of the question until the latter part of this week, or the early part of next.

Delacroix, supported by Salvago-Raggi, maintained that the Commission now having the "concrete and precise" German proposal, were in a position to seek a solution of the question, and pressed for early reference to the Committee of Bankers.

Some reference having been made to the Brussels Conference by Barthou, Bradbury pointed out again that the British Government had not as yet definitely expressed its agreement to participate in such a conference and that obviously no definite decision could be reached on this point until after the elections. He argued that any possibility of settlement of the German problem is dependent on expeditious handling, and was of the view that the Commission, after the Poincare speech and immediately upon his return from London, should proceed to an examination of the whole question in an endeavor to reach a decision, and not to depend on the question being dis-

posed of by a possible Brussels Conference.

As to the Commission's procedure in handling the question, Bradbury repeated the steps he had previously suggested in personal conversations in Berlin, viz:

- First. - The German Government to submit a concrete and precise plan for the stabilization of the mark, and the eventual balancing of the budget, and the cessation of increase in the floating debt, together with a detailed statement of the concessions decided necessary by the German Government from the Commission to make the plan operative.
- Second. - The Commission to examine the plan submitted by the Germans, determining whether or not its general lines were acceptable and in particular as to how far the Commission would go in granting the concessions requested.
- Third. - The reference of the German plan, plus the Commission's decisions on "Second" above, to the Committee of Bankers for the latter's recommendations concerning its practical aspect.

Bradbury, in support of his thesis for an early settlement of the question, stated that to all intents and purposes the first step had been accomplished, and therefore the Commission could proceed forthwith to considering the second step, so that the problem could be referred with minimum delay to the Bankers Committee for the purpose outlined in the third step. Barthou, while not committing himself to the plan of reference to the Committee of Bankers, nevertheless, while in Berlin expressed general accord with Bradbury's views as to procedure. Mr. Boyden informally pressed for an expeditious and sound solution, without laying any particular emphasis on forms of procedure.

At the unofficial meeting preceding the receipt of the German letter of November 15, and when the lack of preciseness and concreteness in the previous German note was under discussion and criticism, Mr. Boyden informally urged the Commission, itself, to take the initiative. Barthou suggested that Mr. Boyden, as a purely personal effort, draft a proposed letter to be sent by the Commission to the German Government on the lines he had indicated. Mr. Boyden took advantage of this and submitted in turn to Barthou the draft of the letter which he proposed (See Exhibit B). Mr. Boyden has no idea that the letter as drafted will be sent to the German Government as it is obviously ultra vires, and as a matter of fact the situation is somewhat changed from the time his offer was made by the receipt of the new Ger-

man proposals. However, it was too good an opportunity to be lost and holding the view that the "missionary effect" would serve a useful purpose in strengthening Barthou's hand in the latter's endeavor to deal with the reparation question on business lines, he forwarded it as originally drafted.

Faithfully yours,

John A. L. Jr.

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

JAL/AJG

Encls.

ACKNOWLEDGED

DEC 1 1922

P. S.

JAMES A. LOGAN JR.

Paris, 17 November 1922.
18 rue de Tilsitt.

Personal and Confidential.

My dear Ben:-

On the second page of our Report on the general reparation question of even date, which has already left Paris, certain reference was made to Bradbury's criticisms of the German proposal for the stabilization of the mark, etc., received by the Commission November 14, 1922.

Shortly after the above referred to letter had been transmitted, Bergmann called at the office and in the course of an informal conversation, and without mentioning the sources of my information, I referred to certain criticisms of the German proposal of November 14. As reported in our preceding letter, the latter German proposal was largely based on the Vissering- Dubois-Kamenka report (One of the two reports made to the German Government by its Committee of Experts in Berlin). Bergmann, in reply, said that he would like to give me a memorandum showing his views as against the criticisms. I enclose herewith copy of the purely personal memorandum handed me by Bergmann.

Faithfully yours,

James A. Logan Jr.

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

JAL/AJG

Encl s.

MD

Green

Paris

Dated November 18, 1922

Recd. 3:47 p.m.

Secretary of State,
Washington, D. C.

471, November 18, 5 p.m.

B-791. Receipts since November 10th German treasury bills 58,497,996 gold marks Luxemburg coal 97,657 pounds sterling. All credit Belgium. These German bills plus 1,502,004 gold marks credited to Germany for Luxemburg coal and textile alliance. Dyes delivered in September and October compose total 60 million gold marks due Germany to Belgium November fifteenth. British Government reports 678,000 pounds sterling receipts reparation recovery act for October retained account British army costs. Boyden.

HERRICK

Mr. Boyden Acc. -

BS.

CONFIDENTIAL

November 20, 1922.

Dear Logie:

I have read your letter of October 27, with a good deal of interest, as it is the first indication of what may transpire as a result of the turning out of Lloyd George.

Your description of Bradbury's argument impresses me very much, but there is one point that I do not understand his advancing - considering the solidity of his argument in other respects. On page two of your letter I understand you to quote him as stating that payments to be made by Germany, not otherwise provided for in the budget, will be paid for from the proceeds of paper mark loans to enable the making of deliveries in kind. I have paraphrased your language so as to give you my understanding of it. Surely, payments of that character would involve disturbance of the budget just as much as payments of any other character. Was this a concession to the French point of view? Another point which puzzles me a bit is Bradbury's argument as to the status of Clemenceau's letter of June 16, 1919, and the status of the decision of May 5, 1921, establishing the schedule of payments. I cannot believe personally that Germany is bound by decisions which are imposed upon her which depart in the slightest particular from the Treaty of Versailles, except they should be, on the one hand, concessions to Germany, or, on the other hand, imposed upon her by military force; and I have all along assumed that the real underlying question was whether the Treaty of Versailles did not impose a payment upon Germany of some 80 billion marks or thereabouts for disability pensions, which violated in spirit the terms of the Armistice. This all leads me to the view expressed by Bradbury which you have underlined on page three. After all, much of what is attempted with Germany has military rather than treaty or contractual support.

If the conclusions we are to draw here from the new Prime Minister's pre-election statements are at all accurate, it would look to me as though any move by France or any move by the Allies in support of any decision by the Reparations Commission, which involve anything in the nature of an extension of military occupation, would be scrupulously avoided by the new British Government, possibly even resisted, and be made the excuse for allowing France to go it alone. This is all surmise, but I can well understand how tempting it would be to a new Government in England to take just that position and relieve itself of possible involvement in the consequences of further sanctions in that direction.

I have just returned from Princeton after witnessing a great Foot Ball triumph, and had an opportunity for quite a meeting with some of the Professors in the courses in economics. They are very keen to get as complete a set of the documents of the Reparations Commission as possible. They would be willing to lock them up under any seal of confidence that seems necessary and for any period of years that is necessary. How do you feel about the possibility of their getting just such a collection as that, the cost of which of course I would be very glad to pay?

November 20, 1922.

There is not much news here except the reassembling of Congress which only occurs to-day, so I have not got the hang of what is going on. I will write you after my next trip to Washington.

Yours very sincerely,

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

BS.MM

JAMES A. LOGAN JR.

Paris, 18 rue de Tilsitt,
24 November 1922.

PERSONAL & CONFIDENTIAL

My dear Ben,

Due to the prolonged stay of Sir John Bradbury in London, the lack of definition of British policy, and the unsettled condition of the German political situation incident to forming the Cuno Ministry, there has been little progress in reparation matters within the Commission itself during the last seven days.

Outside the Commission, there have been happenings of importance in reparation matters the consequences of which cannot be forecasted, but which for the present at least throw a pessimistic blanket over the whole situation. These happenings are largely the results of the activities of certain foreign bankers in their endeavor to force an early consideration of the German plan of November 14th 1922 for the stabilization of the mark. (See Exhibit A, our letter of November 16th 1922).

Upon conclusion of the work of Germany's Committee of Experts in Berlin, approximately the same date as the conclusion of the Reparation Commission's Berlin sittings (November 10th 1922), Messrs. Dubois, Vissering, Cassel, and Jenks (all of Germany's Committee of Experts) came to Paris. Dubois and Vissering came for the purpose of endeavoring to influence the French and Poincaré to accept the German plan in the hope that the French Government, and consequently the Commission, would forthwith invite the reconvening of the Reparation Commission's "Bankers Committee" (including Mr. Morgan) to take up the practical application of the plan. The other two gentlemen of the German Experts' Committee while happening in Paris for personal convenience, nevertheless held themselves ready to be of assistance if their services were demanded.

During the stay of the Commission in Berlin, Mr. Morgan was visiting Rome. It was reported he contemplated being in Paris last week for a few days before sailing for America, and on this account Dubois and Vissering hoped that they could so influence Poincaré as to

enable a reconvening of the Bankers Committee before Mr. Morgan's sailing.

It developed on the other hand that Mr. Morgan, while in Rome at the time, had not contemplated making any extended visit in Paris, and as a matter of fact passed rapidly through Paris to London while all were in Berlin. It also developed that Mr. Morgan did not contemplate returning to Paris before his departure from England for America today.

Dubois and Vissering have both given me the following account of their efforts with Poincare which, from other sources, I gather to be substantially correct. It will be remembered that during the summer months Poincare, when being interpellated in the French Parliament on the general question of the failure of French agreement to the Bankers Committee's recommendations, and in particular to Mr. Morgan's participation in such recommendations, made the general ungracious and entirely unwarranted statement to the effect that "Don't worry about the Bankers Committee, or Mr. Morgan, as there will never be any question as to bankers being here any time we want". In substance, he subsequently made the same statement and used Mr. Morgan's name. The impression that these statements made was that Mr. Morgan's only interest in the reparation settlement was that of the money-lender, and with no higher motives. Those of us who know Mr. Morgan and know his real motives for being willing to participate in the thankless task of trying to bring reason into the minds of European public opinion, felt Poincare's aspersions not only unjustifiable but difficult to forgive.

According to Dubois, about November 15th he prevailed upon Poincare to agree to send an invitation to Mr. Morgan for a personal conversation in Paris. At the time he thought he invitation would be one of a fairly formal character which would pave the way for Poincare's "amende honorable" and understanding between the two. He, therefore, was surprised to find on November 17 that only a verbal and quite informal invitation had been extended. He asked the reason for this and was informed that Poincare, realizing the offense he had given Mr. Morgan, did not want to be put in the position of having his invitation refused, and was feeling out the situation before extending a formal invitation. Dubois became active with the result that a formal invitation was immediately, though somewhat tardily, despatched by the French Minister of Finance de Lasteyrie. Mr. Morgan replied to the effect that his plans were all made to sail to America November 24th and that the only time he could be in Paris would be November 22nd, and while desirous of being of every assistance possible in the situation, he nevertheless felt that before coming to Paris he should have some assurances that Poincare accepted the general principles laid down by the Reparation Commission Bankers Committee's report of last June, together with a definite assurance of a substantial period of moratorium being accorded Germany, as a preliminary condition to the visit. To this message Poincare replied, expressing regret, "that an important French Cabinet meeting on Wednesday November 22 would prevent his receiving Mr. Morgan that day". Thus the efforts of Dubois and Vissering wholly failed, and these gentlemen are all leaving Paris today returning to their homes.

Vissering with whom we have talked, since the Morgan incident, is very pessimistic as to the outcome of the present European situation, and

forecasted serious social disorder in Germany, and general European exchange panics within a short period of time. He said the Dutch position was particularly difficult and Holland was already experiencing difficulty in handling the Germans coming from Germany to Holland for the purpose of escaping the impending social disturbances and lack of food in Germany. He said his Government was now seriously considering measures for preventing this influx of Germans into Holland. He was however hopeful that the situation would clear up. He felt that little could be expected from Poincare, but from the information he had gathered he felt the days of Poincare's political life were numbered; expressing the hope that they would be short as possible; and that a better situation would develop after Poincare was succeeded by a more conservative and practical French statesman. When considering Vissering views, the special position of Holland and the latter's large holdings of "dumped" German marks must be considered.

Dubois, with whom we have talked since the Morgan incident, was also pessimistic. He anticipates serious social disorder in Germany shortly, and was fearful of the effects of such social disorder on the internal labor situation in Switzerland, it being very sensitive to such disorders in Germany. He pointed to the very grave social times in Switzerland during the last German revolution which, in his opinion, were apt to re-occur. He said that he had done every thing he possibly could to bring reason to the French and particularly Poincare, but had failed. His only hope was that Poincare's days of political life were numbered. He said that from the information he had he would not be surprised to see the fall of the Poincare Government even before Christmas, but at the latest by next March, and that while little of a constructive nature could be accomplished in the meantime, he nevertheless felt that, as did Vissering, better days would follow the new French Ministry.

As regards the probability, or possibility, of the fall of the Poincare Government, we would not care to venture any forecast, though the rumor is rife in support of both vissering and Dubois' view. This view is more or less confirmed by the growing independent attitude of certain French political leaders since Poincare received the so-called "vote of confidence" after his speech in the Chamber on November 17. Apparently this vote was scarcely a bonafide expression of confidence. Parliament was very late in session and all were desirous of adjourning. The actual vote as recorded was on a resolution for adjournment with the added proviso for a reconsideration of the questions at issue within a period of a month. On this vote, Poincare recorded a very substantial majority which Poincare's antagonists maintain would not have been possible had not the adjournment and reconsideration features been attached to the resolution as passed.

Bergmann who is here in Paris and with whom we have just talked, is quite pessimistic, though his views as to the immediate possible results outside of Germany are not nearly as pessimistic as the views expressed by Dubois and Vissering. He attached no special importance to recent rioting in various German cities which have been given so much prominence in the British press.

He did not believe that a general European exchange collapse was imminent. In the foregoing particularly his views were somewhat reassuring. On the other hand he held that it would be a great mistake to hold the Brussels Conference unless some definite and practical plan with which all the Allies were in accord had been worked up by experts beforehand. He said that if the Brussels Conference was held without this preliminary it could only result in the immediate sacrifice of Chancellor Cuno on the altar of Allied public opinion, which would be a most regrettable and backward step. He maintained Cuno's ideas were liberal and the latter wanted to work out a solution of this problem in concert with the Allies. If he were sacrificed at the very start of his task, it would be difficult to find anyone with Cuno's ability and views to take over the German helm. He was at a loss to know what was the next step to be taken by the German Government aside from the confirmation by Cuno of the German plan for the stabilization of the mark, submitted by Wirth to the Commission on November 14, which he said was now an accomplished fact. As to social difficulties in Germany he did not, for the present, anticipate serious consequences unless the mark fell to some 20,000 to the dollar, when, in his opinion, it would be a practical impossibility for the German Government to feed its population.

Theunis the Belgian Prime Minister, and Jaspar the Belgian Minister of Foreign Affairs, were in Paris yesterday in consultation with Poincare concerning the holding of the proposed Brussels Conference. They are apparently concerned and in the then unsettled situation, they questioned the wisdom of holding such conference. The French having no reasonable programme it was difficult for them to see any real basis for the conference and that there was every chance that the results might even be harmful generally and particularly embarrassing to Belgium. Under these circumstances they were not overly anxious to push for the Conference. Bonar Law had made no commitment at all as to Britain's participation in the Brussels Conference, and as yet there was no indication of his policy. Theunis had suggested his going to London the early part of next week to see Bonar Law for the purpose of discussing the Brussels Conference situation. He received a reply in effect that Bonar Law, while glad to see him, was nevertheless "very much engrossed in the organization of his new Ministry and with affairs relating to the Lausanne Conference, and as yet had had no time to study in detail the questions relating to the Brussels Conference or form any opinion". Therefore, if Theunis came, "their conversations would necessarily be restricted to a most general discussion in which no question of detail or commitment of policy could be involved". Theunis was a good deal mystified by this reply. Very little resulted from Theunis' conversation with Poincare in view of the Bonar Law attitude and this notwithstanding Poincare's desire for the Conference. The question of whether or not there will be a Brussels Conference, and its scope if held, therefore, remains entirely unsettled.

It has just developed that there is reason to believe that within a very few days there will be a joint meeting of the French, Italian, Belgian and British Governments. From what I gather this meeting will be small including only Poincare, Mussolini, Theunis and either Bonar Law or Curzon. At this meeting the effort will be made to reach a decision as to future policy; whether or not the Brussels Conference is to be held, etc. In the meantime, and pending the outcome of this meeting, we contemplate little will be done in the Commission.

Bradbury has just returned from London after his prolonged stay the length of which stay was undoubtedly dictated by the desire of Bonar Law not to precipitate a consideration of this reparation question until after the Turkish question at Lausanne was on its way to settlement. From what we gather it appears from Bradbury's discussions with the new British Government that there will be no radical change in the British position on reparation questions though there may be a change in methods of handling.

In addition to the German November 14th plan for the stabilization of the mark, there are two other quite important questions now before the Commission, viz: Germany's failure to fully meet demands for coal and demands for timber deliveries. The latter questions are technically in such position that there would be much difficulty for the Commission, if pressed by the French, to obviate a "report of formal default to the Allied Governments". I understand that by arrangement between the British and French Delegations, and pending the outcome of the proposed meeting between the different Governments, the British will not push for an immediate consideration of the German plan for the stabilization of the mark provided the French do not push for a formal report of default on account of coal and timber deliveries,

Faithfully yours,

John A. L. Jr.

JAL/BD

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

JAMES A. LOGAN JR.

Paris, 18 rue de Tilsitt.
27 November 1922.

Personal

My dear Ben,

I enclose herewith copy of reports dated August 24, 1922, and November 25, 1922, concerning the Austrian reparation question which I feel you may find of interest.

Why don't you come over and make us a visit some time after the first of the year? We would all like to see you. I had hoped to get home for Xmas this year, but cannot get away. I may be able to get over in the spring. Bill Williams left us a few days ago for a trip to Berlin. He will be back in Paris on December 10th and contemplates sailing home shortly thereafter. He is a bit lonely over here and is either missing Constance or Connie, I don't know which and I don't think he does. Basil is leaving tomorrow for a trip in the Balkans and Constantinople to be gone some two or three weeks. Basil and myself plan spending Xmas week at Gstaad in Switzerland with Joe and Alice Grew, their kids, Warren and Irene Robbins, their kids, Henry and Beatrice Fletcher - sans famille, and two indiscriminate beautiful ladies not as yet selected. I know we will have a grand time.

A Merry Christmas and a Happy New Year to you.

Faithfully yours,

James A. Logan

JAL/BD
2 encls.

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

CONFIDENTIAL

Paris, 25 November 1922
18 rue de Tilsitt.

Subject : Austrian Reparation Question

My dear Mr. Secretary,

Under date of August 24, 1922, we reported certain informal negotiations carried on in the Commission relative to a settlement of Austrian reparation questions. Under date of October 4, 1922, File WE 463.00 R 29/130, the Department acknowledged receipt of our letter, at the same time enclosing copy of letter dated September 21, 1922, addressed by the Secretary of the Treasury to The Secretary of State, in which the views of the Treasury Department were outlined.

The informal plans under discussion have encountered some difficulty due to the Italian attitude, and on this account, we deem it advisable to report the situation as we see its development to date.

On July 21st the Reparation Commission agreed to release for 20 years the revenues of the Forests and Domains, Salt Mines, and Customs so far as they were required as security for a new Bank of Issue, and subject to the terms of the Law for the Bank of Issue proving satisfactory to the Commission. On the same date the Commission decided that it was prepared in principle to liberate the revenues from the Customs and Tobacco Monopoly as security for a foreign loan subject to approval by the Commission of the terms of the loan.

On August 4th the Commission approved the Austrian Law for the Bank of Issue and definitely released the assets for that purpose for 20 years.

For both these decisions the approval of the Powers not represented on the Commission including America, but holding Relief Bonds was necessary. This was requested and obtained by the Reparation

Commission, but not until after some delay and reserve on the part of Italy whose formal Governmental acceptance was not received until November 21. The terms of the Italian Government's formal reply are to the effect that it "agrees to the suspension of claims on Relief Bonds under the terms of the Reparation Commission's decisions of July 21 and August 4, with the reserve that such agreement is subject to ratification of Parliament, and without prejudice to such readjustments which may be carried out between the Allies as regards American relief". The Italian Government's delay in replying and its reserves can not be taken too seriously, as the inconsistency of its official Delegate voting "yes" in the Commission when the decisions were reached, and "no" as an individual Power is ridiculous. However, the Italian Government's attitude should be borne in mind.

On the 16th of August (as already reported in our letter of August 24, 1922) after conversations with various Delegations, the British drew up a resolution known as "B" which determined the amount of reparation debt under Article 197 of the St. Germain Treaty payable by Austria, at a "sum equal to the total value of the property which has been transferred under the said Treaty to the Allied and Associated Powers". Another draft decision known as resolution "A", assigned as Austria's debt a sum of 500 million gold crowns plus the value of the property transferred by Austria; the 500 million gold crowns to be paid in ten equal instalments commencing May 1, 1942; until that date the assets and revenues of Austria being released subject to the approval of the Powers holding Relief Bonds.

Resolution "A" was only drafted because up until that time both the Italian and French Delegations had refused to consider the possibility of wiping out Austrian reparations.

The British Delegation in the early part of the year had informally agreed with the Italian Delegation to Austrian reparations being determined at a nominal sum and postponement arranged for 20 years, with a simultaneous postponement of Relief Bonds. This, of course, was benevolent "window dressing" for Italian opinion, as the Relief Bonds would effectually prevent any reparation payment until liquidated.

The acute danger of the position revealed by the Austrian appeal at the Allied Conference in London so altered matters as to make the imposition on Austria of any sum more than ever ridiculous. The French Government and the French Delegation then agreed in principle to resolution "B" which, in effect, wipes out all question of reparation. The Italian Delegation, unofficially informed of the British and French attitude, maintained their view that they could not agree to wiping out reparations and unofficially submitted to the British and French a proposal imposing on Austria a reparation payment of 2 billion gold crowns. This proposal, disregarding the terms of the Relief Bonds, exacted small nominal payments during the next 20 years, although the principal payments were to be made in the 10 years following 1942. It also allowed Austria to hypothecate, but not to dispose of, her assets during 20 years.

At the conclusion of the recent League of Nations Geneva Conference regarding Austria, Signor Schanzer, then Italian Foreign Minister, gave out a statement to the effect that although "Italy had agreed with the other

Powers to guarantee a loan to Austria she had no intention of waiving her claim to reparation". In other words, the Italian Government was not prepared to accept the "B" resolution.

Assuming that the Succession States would not be unanimous as regards resolution "B", the Common Delegate on the Reparation Commission would be forced to either refrain from voting or vote against the resolution if formally presented. In either case it would be a vote in the negative and if supported by the Italian Delegate would require the casting vote of the French President in order to give it effect. I understand the French were not prepared in the face of Italian opposition to give such casting vote. It was therefore impossible to wipe out either the farce of imposing a reparation charge on Austria, or holding over her head the power of so doing.

When the Protocol was drawn up by the League of Nations at Geneva with regard to helping Austria was received it was apparent that they had overlooked the fact that they could not proceed with their programme until they had received the sanction of the Reparation Commission, and that their whole scheme both for immediate and ultimate purposes depended on the Commission and the Powers holding Relief Bonds. Sir Arthur Salter, Head of the Economic Section of the League of Nations, was urged to press the Italians to agree to "B", but he declined, fearing that if "B" were passed over the vote of the Italians the latter would refuse to ratify the Geneva agreement and guarantee a share of an Austrian loan.

The British Delegation drafted and tentatively proposed a resolution which in effect released the assets of Austria for 20 years and substituted for the control of the Reparation Commission the control of the League of Nations, subject of course to the approval of holders of the Relief Bonds. I am informed however that Sir Arthur Salter felt that this resolution would again antagonise the Italians and therefore there was substituted for it a resolution passed by the Commission on October 27 which temporarily released the Customs and Tobacco revenues as security for short term loans which Austria might have to raise prior to the League of Nations international loan, and making the Commission's decision of August 4 applicable to the revised plan suggested by the League of Nations for the Bank of Issue instead of the original Law as submitted by the Austrian Government.

The net result of all these activities is that no decision has yet been taken with regard to Austrian reparations; that the League of Nation's scheme ~~was~~ is technically invalid so long as the control of Austrian assets and revenues is vested in the Reparation Commission and in the Relief Powers-- under the Note "Advances to Austria". The League of Nations were so afraid of Italy's non-ratification of the Geneva Agreement that for the moment they did not want to ask the Reparation Commission even for the authority without which any system of control is technically highly questionable.

The dilemma of the Austrian Government under the foregoing conditions is too obvious to require comment. I am informed that Sir Arthur Salter's view was that it is better to wait until the Italian Parliament has ratified the Geneva Agreement before going ahead with getting rid of Austrian reparations. The fear, however, is that the Italian Parliament, if the Italian attitude is correctly represented in the Commission, will not ratify the Geneva

Agreement until perhaps the Commission have imposed on Austria a charge for reparations which however long postponed will never be paid. Austria would naturally welcome a solution on the basis of resolution "B". However, for reasons of policy, Austria is not in a position to urge a settlement on this basis, and does not consider the present moment auspicious for the sort of adjustment it is hoped will be ultimately possible. Austria feels that pressure at this time might jeopardize and complicate negotiations for the temporary and long term external loans contemplated under the Geneva protocol.

The whole affair as outlined above is another instance of the perpetuation of the political "make-believe" of which we have seen so much in the handling of all reparation questions. The Italians, having accepted the Spa Protocol of July 16, 1920, fixing Italy's share in German reparations at only 10% of the total received in return only for a theoretical 40% of all reparation receipts from Austria, Hungary and Bulgaria, now pretend to treat the Austrian share seriously. The Italians undoubtedly feel their trading position will be improved by the maintenance of a large, though even impossible, figure of Austrian reparations when the day comes for a final adjustment of all reparation questions. The fact nevertheless remains that fundamentally the Italian attitude vis-a-vis a sane settlement of reparation questions in Central Europe is more unsound than the French attitude vis-a-vis the German reparation question. This is a fact often overlooked by those critical alone of France's attitude. If the Italians could be persuaded to take the initiative by immediately liquidating Austrian reparations under the plan of resolution "B", they would be the first power to break up the present web of make-believe---and, we feel, at no cost to themselves. Any hope for Austria working out of its present dilemma so long as reparation liens cover all Austrian assets (notwithstanding whether postponed for 20 years) is open to grave doubt. With the reparation claims once definitely liquidated it would not appear difficult for Powers holders of Relief Bonds to release, in whole or part, the liens they now hold (with priority over reparations) on Austrian assets. We feel that up until the reparation liens are released a useful purpose is served by the maintenance of the prior Relief Bond liens.

We are sending a copy of this letter under confidential cover to the American Minister in Vienna so that he may be fully informed of our views in the premises and thus be in a position to make such comments as he may desire to the Department.

Faithfully yours,

James A. Logan, Jr.

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

JAL/AJG

JAMES A. LOGAN JR.

Paris, 28 November 1922.
18 rue de Tilsitt.

Personal and Confidential

My dear Ben:-

Loose in file

I enclose herewith as being of special interest in today's situation copy of a memorandum showing Hugo Stinnes' personal views concerning German rehabilitation and reparation possibilities. I also enclose copy of Berlin Document No. 1315, which gives the speech made by Stinnes on November 9 before the National Economic Board. The first of these documents is quite confidential; the second, or speech, has been published in the German press, and is therefore not confidential.

I am personally not a tremendous admirer of Stinnes, feeling that his guiding purposes are more often selfish than patriotic. In addition, I think his scheme and certain parts of his speech are both unsound and impractical. However, they throw an interesting sidelight on the situation and on this account I feel they will interest you.

Faithfully yours,

James A. Logan Jr.

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

JAL/AJG

Encls.2.

*P.S. Also enclosed please find
copy of a "Note on the Present State
of German Reparations" which has
points of interest.*

Letter of November 28, 1922

Personal views held by Stinnes

1. Germany's present position is due to (1) underproduction and
(2) the Versailles Treaty.

2. How can Germany, Europe and the world get back to normal?

If the Entente will evacuate Germany, abandon all compulsory measures and cease to interfere in Germany's internal administration, Germany would:

(1) Work overtime to produce a favorable trade balance and to pay interest and amortization charges on a gold loan with which to reconstruct Belgium and France and stabilize German currency.

(2) Abolish all Government control of domestic and foreign business in Germany.

(3) Stabilize the German mark at the level existing after the loan has been insured, when the following conditions have been created:

- (a) Prohibition of industrial strikes
- (b) Reorganization of governmental enterprises upon a profitable basis
- (c) Revision of tax laws to stimulate thrift
- (d) Reduction of number of government employees

^{Make}
(4) Provision for temporary annuities for the middle classes who have lost their means of subsistence through inflation.

(5) Final liquidation of results of war ^{much} by agreement between the United States and Germany, France, England, Italy and Belgium.

Speech by Stinnes before

Commonwealth Economic Board

"The primary condition of any improvement of German conditions is a considerable increase of labor," - say two hours per day for ten or fifteen years. In return for this Germany should be permitted to profit by the most

favoured nation clause, and this will be granted only when the German workman is paid in gold.

Stabilization of the mark at too high a rate would be too high a gift to foreigners who bought marks at cheap prices, to the working classes and to officials with fixed salaries, and would entail enormous losses of capital and bitter wage contests.

German Government should tell the people that they must work overtime until a favorable trade balance is established and funds obtained to cover loans and reparations requirements. The devastated regions must be reconstructed. The Commonwealth must be properly managed as a commercial undertaking.

Present State of Production in Germany

Annex 1667 b

Currency conditions have led to intensive exportation of goods and investment of profits abroad, conversion into paper marks being made only when the funds are needed. Stabilization or appreciation of the mark would result in the return of exported currency.

It is difficult to judge the real condition of German companies, but it is probable that most of them have suffered considerable losses, which have been concealed by the existing inflation.

Letter of December 8, 1922

Suggestions concerning the Reparations problem

Annex 1681a

A long discussion of the general situation, the most interesting part of which is a series of schedules indicating how the German indemnity might be covered by international loans to be issued serially over a period of years, annual payments to cover interest and amortization. Complete cancellation of Inter-Allied debts is also recommended.

Balance of German Accounts

Annex 1623

Commercial Balance

While the commercial balance has for two years shown a considerable

deficit, conditions have steadily improved and an equilibrium may be anticipated in the near future.

The following table is suggested as representing Germany's balance:

<u>Assets</u>	(million gold marks)	<u>Liabilities</u>	
Value of exports	. . .	Value of imports	. . .
Surplus from exports if deliveries in kind are not effected	480	Cost of Armies of Occupation	240
Exports by foreigners	150	Cost of Commissions	20
Amounts spent by foreigners	300		
Amounts spent by Armies of Occupation	50		
Freight	250		
Transit	<u>25</u>	Credit Balance	<u>995</u>
	1,255		1,255

Taking in consideration reparations payments, the accounts for 1923 might stand as follows:

<u>Assets</u>	(million gold marks)	<u>Liabilities</u>	
Value of exports	-	Value of imports	-
Hidden exports)		Costs of the Armies of	
Sums expended by foreigners)	500	occupation	240
" " " the troops)		Proceeds of the Recovery Act .	120
of occupation)		Transportation of deliveries	
Freight	250	in kind	35
Transit	<u>25</u>	Clearing offices	250
Debit balance	140	Reimbursement of bonds	
		handed over to Belgium . . .	<u>270</u>
	<hr style="width: 10%; margin: 0 auto;"/>		
	915		915

The present crisis is due largely to want of confidence. The stabilization of the mark by the balancing of the budget can be realized only by the restoration of confidence in Germany's recovery and the consequent cessation

of the flight of capital.

Economic Effects of Deliveries in Kind

No. Gar S/2D

Deliveries in kind and cash payments have absolutely identical effects upon Germany's economic system.

CONFIDENTIAL

Paris, 29 November 1922.

Comments on Toledo Speech of Secretary Hoover.

With the general proposition I am in entire agreement. I feel that the uncollectible fraction of 5% is set a little low; 10 would be nearer my estimate. Hoover's views are supported by the analysis of our international account recently put together by Williams, of which the latest formulation is in the Tenth Special Number of the Manchester Guardian Commercial Supplement. Williams brings clearly to view the factors through which an export excess of merchandise trade of practically 10 billion Dollars during the last four calendar years has been wiped out. I think Hoover could amplify a future address by laying stress on the fact that January, 1923, will see the United States practically relieved of unfunded commercial balance due to us. As a nation of traders, therefore, we face the world next year without frozen credits or unliquidated accounts, and are in position to make contracts and commitments that were not possible so long as we had a heavy unfunded commercial balance due to us.

I think more attention should be paid to the low state of political authority in Europe. A certain country might today, in the opinion of its experts, be in position to pay interest; but political authority is at so low an ebb that any Cabinet attempting to arrange the budget on that basis, secure the necessary revenue and curtail unessential expenditure, would go to the wall. This is due to the decadence of political conscience, and to the exaggeration of bloc politics. I think the present history of Europe illustrates that when a nation commits political suicide it does so through the multiplicity of political blocs.

The statement that the interests due us represent in different countries from 2 to 12% of government income rests on a faith in the official statements of government income that I am not able to share. Budget income in Europe is a hodge-podge of direct, indirect and excise taxes; monopolies; capital levies; internal loans; Treasury notes; paper money; and whatnots else. Whenever a group of experts has attempted to analyse objectively the national income of any one of these states, analysis has been found impossible. The experience of the recent Commissions in Berlin, expressed in the simple statement that the statistics and estimates were untrustworthy, holds for the majority of European countries. I have been unable to find any Frenchman who can tell me what the national income of France is. It seems to me that a better position is to say that no discussion of cancellation, postponement of interest or rate of payment can be undertaken until the interest and amortization charges are placed in an Ordinary Budget. When this has been done, our Treasury will be in position to analyse the various items of income and outgo on the Ordinary Budget and we will be in position to determine what percentage of the national income is represented in our interest charges. But the present confusion between Ordinary and Extraordinary Budgets, and the masking of items of income and outgo, make hazardous any statement comparing the interest due us with the governmental income of the country in question.

I venture to suggest that the illustration of our loaning money to a foreign country, enabling that country to make purchases in Europe and placing Europe in position to send that money back to us in payment of European interest, be amplified to include the possibility of quite the opposite transaction. For example, our loans to Argentine have enabled her to sell wheat to Europe on credit. No one can question that the volume of German imports of Argentine wheat last year were facilitated by American loans to Argentine.

The point in connection with tropical products is very pertinent and of great importance. One must not, however, overlook the fact that some of the tropical products come into intensive competition with domestic products. Thus tropical vegetable oils compete fiercely with animal fats and vegetable oils in the United States.

I venture to suggest that one course of future payment of probably great importance has been omitted, namely, imports of petroleum. We have been a petroleum importing nation for several years and with the exhaustion of the Mexico fields must look further abroad for increasing quantities. Whether these come from Canada, Asia Minor, the East Indies or where-not, imports of petroleum will form an important item of payment in our international account.

Of the pre-war investments of Europe abroad, estimated at 30 billion Dollars, apparently about half remain. But this half is almost entirely in Great Britain. It is necessary to view Europe as separate from Great Britain on the one hand and Russia on the other. There has never, of course, been any question of British power to pay. When Great Britain pays us 250 million Dollars a year, it means that she reduces new foreign investment by that amount. It also probably means that we export this capital to foreign fields, and the final transaction represents a transfer to us of British foreign investments in that volume.

It is true that industrial and agricultural productivity in Europe depends for restoration to the pre-war level on peace in the political and military sense and on that fluidity of commercial intercourse that goes with a normal peace. It is, however, necessary to point out that with the present attitude of labor and capital on the Continent, productivity would not be restored even though peace, thus defined, were accomplished. Until a middle-of-the-road agreement is reached between labor and capital in Germany, no restoration of European productivity is possible. One does not need to go to the extreme position of Stinnes---that stabilization of the mark, cessation of inflation, a foreign loan, and a complete moratorium on reparation payments, would do Germany no good because in the eight hour day her workmen do only six hours work---in order to evaluate the low productivity that has followed the political and social upheaval of the revolution in Central Europe. The facts hold to less extent in neutral countries; they hold least of all in France, where labor is efficient and thrift unimpaired.

Finally, it is necessary to lay stress on the fact that thrift has practically disappeared from countries having a population of 100 million people in Central and Eastern Europe. This is the result of the experience that money saved depreciates every day. It must therefore be spent for articles that can be consumed or hoarded. Whether this psychology will disappear and the normal psychology of thrift return when stabilization of currencies is accomplished,

remains to be seen. Certainly "blowing money in" will not be transformed into "laying money up" in a day. And it must be recalled that several millions young workers, the youths of from 17 to 23 years, have never known thrift.

PERSONAL AND CONFIDENTIAL

December 1, 1922.

My dear Logie:

Since writing you on November 20, I have been studying over yours of October 27, November 13, 16, and 17. It's as interesting a batch of reports as I have had from you, and contain so much material for consideration that I am a bit at a loss to know whether to write you at some length along the line of some philosophical reflections or to wait until matters develop a little more definitely. Of one thing I am confident, and that is, there will be some pretty definite developments in the near future in view of what appears to be Poincare's attitude before the French Legislature, on the one hand, in his public statements and debates, and in what appears to be his private attitude with regard to the German situation and reparations generally. Of course, I am reading much between the lines, but I should suppose that any man who is a student and who has intelligence of a high order, as I understand he has, is bound in due time to encounter embarrassment when his own associates give him convincing reports on such a matter as this and when he doubtless develops a certain conviction himself which because of public opinion or because of political considerations, he is not only unable to be guided by ~~his own~~ ~~views~~, but is unable even to voice them. No one really can get away with such a situation, and I would surmise that the British policy of "tranquillity" would gradually lead Poincare into a position of isolation where he must choose between the occupation of the Ruhr, on the one hand, and a moratorium as to reparation payments, on the other hand. It is absolutely certain from what I read in the papers you send me that there will be no payments of importance by Germany, and it looks equally certain that there will be no sanctions with British authority. Doubtless you get my point as to the impasse which is bound to develop for Poincare. This is looking at matters from a distance without all of the mental entanglements of local atmosphere.

None of the material produced by the Germans in support of their contentions about the budget is convincing to me that the budget difficulties could not have been dealt with sometime ago, and even can be dealt with now if they have got the courage to do what is required. The Fascisti government in Italy seems to have the courage, and if they can hold public confidence, I will be surprised if you do not see some astonishing results there.

I have read the draft of Boyden's letter with a great deal of interest indeed. It seems to be an attempt to find a method of developing a state of mind in Germany for the purpose of giving the French Government sufficient courage to face their people with some sort of a moratorium proposal preparatory to not only letting up on treaty payments, but possibly in time actually revising some of the terms of the Treaty of Versailles. It is what you might describe as an extra legal approach to the subject. I do not see any expressions in his letter which violate the provisions of ~~any part~~ of the treaty as to what the Reparations Commission should or should not do. But, on the other hand, there seems to be no warrant of law in the treaty to justify the Reparations Commission to call on the German Government to make a declaration of good intentions. What interested me in Boyden's draft is the confidence which it furnishes of a recognition by a conservative and thoughtful fellow, fairly well posted on the

situation, that Germany may have given some justification in France for distrust of her warlike spirit or at any rate that the French have that distrust whether justified by anything that Germany has done or not.

Finally, in regard to Bergmann's memorandum, I think the proposal for a foreign loan, coupled with the use of 500 million gold marks of the Reichsbank's reserve should be looked upon in this way:

FIRST: The budget can not be maintained in balance permanently so long as the mark continues further depreciation.

SECOND: The mark will continue further depreciation so long as the budget is not balanced.

THIRD: The budget might be balanced without a foreign loan if the German Government had the courage to cut to the bone.

FOURTH: In the absence of that courage, a foreign loan may be essential in order to arrest the depreciation in the mark and enable the German Government to get a balanced budget, even though they have not the courage to do it without a foreign loan.

FIFTH: Under these conditions, a foreign loan might be essential, but should not be permitted except coupled with a plan, and adequate pledges, that the budget will be readjusted in any event.

The point I make is this: I think Bergmann's argument about the possibilities of stabilizing the mark are absolutely sound. A fund of the size proposed would be effective for stabilization purposes, but it would only be effective permanently provided further depreciation of the mark was not brought about by further currency issues.

Unless pledges respecting the budget can be made sufficiently definite and convincing to restore confidence at home and abroad, and unless the projected program of budget balancing can be made actual and real, then mark stabilization as proposed by a loan and the use of gold will simply be throwing away resources. I am not sure but what it would be safer to attempt this program upon a definite basis of rationing with foreign supervision of the application of the proceeds of any loan and of the Reichsbank's gold, so that none of the funds could be used to make up budget deficiencies beyond a certain stipulated amount to be used periodically and no more. Failure to carry out such a program should involve actual defaults.

Defaults are matters of sentiment and degree, in a sense, and not as serious as sentiment sometimes makes them. For instance, an absolute failure to pay interest and principal of the government debt would be the worst kind of a default. On the other hand, taxation of the interest of the debt - as was done by Austria at one time after the war with Prussia, as I recall - would not necessarily have so bad an effect. The former expresses a complete failure and breakdown; the latter is simply a confiscatory tax, and all taxes are confiscatory anyway.

On the whole, my thought is that the best course for Germany - had they the strength to carry it out - would be to balance the budget first and stabilize the mark afterwards. If that is not possible; in other words, if it would involve serious social and political consequences, then the balancing

December 3, 1922.

of the budget would need to be predicated upon a loan and the use of gold, as proposed; but as I say, all interested parties should be protected by some absolute control, even to the point of rationing ~~and~~ ^{the} credit.

I will try and write you something further next week about this if I have opportunity, and in order to do so will need to go over the papers once more.

With best regards to you and Boyden and Basil, I am,

Yours sincerely,

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

BS.MM

JAMES A. LOGAN JR.

Paris, 1⁸ rue de Tilsitt.
1 December 1922

PERSONAL

My dear Ben,

I have just handed a letter of introduction to you to Doctor Alonzo Taylor who has been in Europe for the last three months studying conditions. Taylor is a keen and able fellow and I believe you will find it interesting to talk with him.

Confidentially, Hoover sent me a copy of his Toledo speech and asked for comments. I enclose herewith copy of a memorandum which Dr. Taylor, who is an old friend of Hoover's, prepared and which has certain points which may interest you. I don't know the internal reasons which prompted Hoover to make his speech and if I were in his place I would have kept quiet and let Mellon do the talking. In addition I have a hunch that any position taken at present will be changed by new developments and the less talking indulged in at present will be found least embarrassing in the future. While neither you nor I have exchanged views on this question, I am pretty well satisfied that our minds run in the same line.

Faithfully yours,

James A. Logan Jr.

JAL/BD
1 encl.

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

JAMES A. LOGAN JR.

Paris, 1 December 1922.
18 rue de Tilsitt.

Personal and Confidential.

My dear Ben:-

There has been no discussion within the Commission during the last week on the general reparation question or the programme for the period following January 1, 1923, which must be established before that date. The question has resolved itself into one of a purely political character and for the moment is being handed directly by the interested Governments.

The new German Government (Cuno's) in an official note handed to the Reparation Commission confirmed the proposal submitted by the Wirth Government November 14 (See Exhibit A with our letter of November 16, 1922) in the following terms, viz: "In his speech on November 24 the Chancellor" (Herr Cuno) "introduced the new Cabinet to the Reichstag. He declared in the name of the German Government that the latter adopted without reservation the views laid down in the note of November 14, and that it is firmly resolved to abide by it as well as to carry through the programme provided for in the said note. The German Government definitely reiterates to the Reparation Commission by these presents this declaration. The German Government considering the economical and financial situation of Germany asks the Reparation Commission at the same time to indicate its agreement to the proposal put forward in the note of November 14 with the least possible delay." The Commission has as yet taken no action on this request and, in our judgment, no action will be taken until after the conversations between the Prime Ministers which it is now understood will be held in London shortly.

Outside of the Commission there has been political activity on the reparation question as between Governments, though the situation remains nebulous due to the apparent desire of Bonar Law to delay any announcement of British policy until after the situation at Lausanne is clarified. There are some that suspect Bonar Law's desire for delay has its inception in the hope that such delay will bring to a head the falling off of confidence in Poincare in the French Parliament.

The Paris press on November 28 published a statement, obviously inspired by the French Government, to the following effect:

"For years there have been hopes that international agreements would put at end to the insufferable state of affairs existing in Europe and that unity not only among the Allies in Europe but also the helpful coordination of American finance would result in Germany at least being put in a position to pay and then being forced to pay.

" "These hopes are dying out. It would appear that the December conference which it is proposed to hold in Brussels will be the last French attempt to arrive at a settlement by the aid of her Allies and without undertaking any violent remedies of her own. The French Government is ready to consider favorably any plan which without depriving France of the pledges for her security (the occupation of the left bank of the Rhine, and the clause giving France the right to use military force to coerce Germany) will give her reasonable prospect of being paid something like one-half of what Germany owes her on paper for reparations.

"To secure such payments at least two conditions must be fulfilled, and, unfortunately for France, even her present leaders see very little prospect of these being secured in the near future. It is known that Germany can not at present pay any such sum or any sum per annum which would be regarded as a satisfactory instalment.

"Germany and also France must, therefore, appeal to world finance to come to their aid. World finance would have to float such a loan as would not only stabilize the mark and help to set Germany on her feet, but would also provide the first annuities of Germany's debt which that country can not be expected to pay probably for a period of at least five years.

"The second condition which is inextricably involved with the first and which at present seems equally remote from realization is the total cancellation of all inter-Allied war debts.

"Therefore it is possible to state on the very highest authority that the French ideal programme for the solution of the reparation problem would certainly take the following shape:

(a) A severe inter-Allied control of German finance, accompanied by an international loan, which would be divided between Germany and France. The sums allocated to Germany would, under Allied supervision, be used to stabilize the mark and to purchase such raw materials and foodstuffs as are necessary to enable Germany to pay her way.

(b) The maintenance of all French rights and privileges against Germany including the occupation of German territory. The period of fifteen years for the occupation of the Rhineland would not count during the five years of moratorium that it would probably be found necessary to grant to Germany.

(c) The continuation during the moratorium of German payments in kind destined for the devastated regions or, according to arrangements arrived at by the French Government, for important money-producing works in France, such as canals, electric power stations and railroads.

(d) The cancellation of all moneys owed by France to her Allies for the purchase of war stores, France in her turn agreeing to cancel all such debts which she is owed by other Allied Powers."

Then followed the intimation of certain coercive measures which France proposed taking "in the event of the Brussels Conference being

"cancelled, or if the results of this Conference were not considered sufficiently satisfactory by the French Government, or again if the Brussels Conference gave a mandate to France to seize guarantees from Germany". The measures intimated were:

(1) The seizure forthwith by France of the entire civil and economic administration of that part of the Rhineland which is now held by France and from which all the German civil authorities would be expelled.

(2) Measures which might be delayed if there were any signs of a possibility of a satisfactory solution, viz: the occupation of about two-thirds of the Ruhr Basin. This area would include Essen and Bochum. The occupation would be so devised that the French Government would be able to obtain at once the quantities of coal and smelting coke which are claimed absolutely necessary for France's industries.

The foregoing is a summary of reports appearing in practically all of the European press (November 28) following a meeting in the Elysee Palace of Poincare, certain other members of the French Ministry, Barthou, Marshal Foch, and Tirard, the French High Commissioner of the Rhineland. It appears that on the evening of November 27 a group of French newspaper correspondents called on Poincare and asked him for confirmation or denial of the report. We are informed that Poincare did not make any denial and even confirmed the report as being in substance an accurate presentation of his policy and purposes. Within a few hours after publication, its effect was felt in the Paris Bourse, the franc weakening not only in its relation to the dollar but also in its relation to the pound. Simultaneously the German mark took a decided fall. These two results apparently not anticipated and on the other hand not overly serious resulted in the hasty calling together at the French Foreign Office of the representatives of the press, where a half hearted denial of the authenticity of the report was authoritatively issued. The "denial" was to the effect "that the reports as published in the press of happenings in the Elysee Palace on November 27 were filled with many inexactitudes". The majority of the press, particularly after Poincare's previous confirmation of the report, declined to accept the "denial" as being bona fide, and while some published it, they did so with every qualification.

Our judgment is that the report was designed to serve the purposes of a sort of French "Balfour Note", (The latter was issued by the British without the knowledge of the French immediately preceding the August, 1922, Conference of Prime Ministers in London) and based on: First - A desire to definitely limit the premises and scope of the London conversations of the Prime Ministers; Second - A desire to frighten German industrialists with interests in the Rhineland and Ruhr and thus assure the maximum of their support to any reparation plan which might be developed; and Third - To force Bonar Law to an agreement for an immediate consideration of the questions either at London or at Brussels. Poincare is undoubtedly suspicious of Bonar Law's dilatory tactics which may be disastrous to Poincare's political future and policies.

It has just been announced that Bonar Law agrees to meeting Poincare in London to discuss the questions of whether a Brussels Conference will be held, and its programme if held. Theunis has accepted. It is not yet known if Mussolini will attend. Poincare at first proposed to hold this meeting in Paris the end of this week. However, Bonar Law advised that it would not be possible for him to come to Paris until somewhere about December 15, and that "in view of the French definite statement of position as indicated by the semi-official press reports of November 28, he could see little purpose of such a meeting". Poincare countered by offering to go to London for the meeting the early part of next week (commencing December 4). It is now understood that the meeting will be held about December 10.

We now come to the question of whether Poincare is bluffing. Obviously the French position is honey-combed with short-sighted politics, unsound economics, unrealities of all kinds, and is fundamentally weak. Our judgment is that France is certainly threatening and actually preparing measures along the line indicated if no agreement is reached with Great Britain at London or elsewhere. Their attitude, while interpreted by some as intended merely to bring pressure on other Powers, particularly Great Britain, and making all possible allowances for such thought, is nevertheless not safe to rely on. Our judgment is that Poincare is pretty determined to stand or fall by this policy. The hopeful sign is that there is grave doubt as to whether he will succeed in standing, but from a practical political point of view his policy, like our old "bloody shirt" politics, seems to be his only hope. Whether any agreement between France and England is possible appears likely to be determined by the approaching meeting of the Prime Ministers in London. In our view and if it be found that they agree on fixing a definite date for the Brussels Conference, there is every prospect of some sort of workable arrangement being reached.

On the other hand, and in the event of a failure of the London conversations, the policy which will actually be followed by France depends upon the support Poincare receives in the French Parliament. Rumors are rife and growing in France to the effect that the Poincare Government is about to fall. However, in view of the general uncertainty of the situation we would not care definitely subscribing to any such forecast.

The Belgians are gravely concerned by the present situation according to Delacroix and Bemelmans, for if Poincare adopts his proposed policy and forces coercive measures against Germany, Belgium, for internal political reasons and as a measure of national economic safety against France, is practically forced to follow.

Bradbury, when questioned informally, was quite emphatic in his denouncement of Poincare and his policies. In his judgment, the conversations of the Prime Ministers in London will result as follows: Poincare will arrive in London with a programme following the lines of the inspired press reports. According to Bradbury, Bonar Law's attitude will be that the British Government, considering this programme entirely unlikely of assuring any results, will neither accept it nor agree to participate in any of the proposed coercive measures.

Consequently, Bonar Law would decline to join in any Brussels Conference. This will either force Poincare to agree to considering some alternative plan for handling reparations or, if unwilling to do so, to return to Paris and face the situation alone and unsupported by the British before the French Parliament.

In our judgment, in the event of failure of agreement in London, and in the event of Poincare's policy being subsequently supported by the French Parliament, Poincare will immediately proceed with coercive measures which can only be fruitless and even dangerous for the French and Europe generally. Also the results of Poincare's proposed line of action, if carried out, will give France certain important commercial and financial priorities in Germany which may affect American interests, for France, in the position which she would then have (and possibly assisted by other nations), will virtually be a receiver of an American debtor with control of tariffs and trade activities of an important American consumer.

Faithfully yours,

J. A. L. Jr.

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

JAL/AJC

JAMES A. LOGAN JR.

Reparations

Paris, 8 December 1922.
18 rue de Tilsitt.

My dear Ben:-

I enclose herewith copy of a study which has just been prepared by Maurice Frere, a very sound economist who is Chief of the Reparation Commission's Intelligence and Research Division. It presents a comprehensive study of the reparation problem from the purely objective and inter-Allied point of view.

Part II, relating to the reparation question, with its discussions and proposals while perhaps somewhat academic appears to be based on sound premises, and it is well worth reading.

Part III, dealing with the inter-Allied debts, is a rehash of the many old European arguments in support of the cancellation theory. Having a complete European slant in its treatment of the question it scarcely presents any real new contribution.

The theories and proposals contained in this document will undoubtedly be under discussion during the meeting of the Prime Ministers, and also at the Brussels Conference, if held, and I am therefore sending it to you as it occurs to me you may be interested to look it over. The one merit of Part III, concerning the inter-Allied debt question, is that it gives in comprehensive form the general position of our European friends who are partisan to the cancellation theory.

Faithfully yours,

James A. Logan Jr.

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

JAL/A JG

Encls.

JAMES A. LOGAN JR.

Paris, 18 rue de Tilsitt.
8 December 1922

PERSONAL & CONFIDENTIAL

My dear Ben,

There has been no discussion in the Commission during the last week on the reparation programme for 1923. The question is held in abeyance pending the outcome of the Prime Ministers' Meeting in London, which begins tomorrow December 9, 1922.

The German financial position continues to weaken from day to day. In this connection the following figures are believed to be of interest as portraying certain important indications of the present downward trend of affairs.

(a) Floating Debt.

Actual figures of discounted bills and increases as of the dates indicated:

<u>Date.</u>	<u>Discounted Bills;</u>	<u>Increase.</u>
31 August 1922	331.3 billion	
30 September 1922	430.9 "	119.5 billion
31 October 1922	603.6 "	152.7 "
16 November 1922	736.6 "	130.0 "
1 December	853.9 "	117.3 "

(b) Paper Currency Issue including Reichsbank Notes and Darlehensscheine.

Actual figures of total and increase as of the various dates indicated:

<u>Date.</u>	<u>Total.</u>	<u>Increases.</u>
31 August 1922	257.5 billion	
30 September 1922	430.2 "	172.7 billion
31 October 1922	483.4 "	53.2 "
23 November 1922	657.5 "	174.1 "

(°)

Notwithstanding the tremendous figure of paper currency issue as of November 23, 1922, and disregarding certain financial, economic and social factors, it is interesting to note:

I. That the actual gold value of the entire issue

(°) (The "Total" as of today has reached approximately 770 billion)

expressed in today's exchange position (approximately 2,000 paper marks equal 1 gold mark) represents only 328,750,000 gold marks (approximately \$82,000,000).

II. That the internal purchasing power of the entire issue expressed in terms of the rapidly rising but today's index of prices (approximately 1,000 paper marks equal 1 gold mark) represents only 657,500,000 gold marks (approximately \$164,000,000).

III. That at the end of June 1914 (preceding the Great War) Germany actually had for day-to-day needs a currency issue of 2,400,000,000 gold marks (1 paper mark equals 1 gold mark) (approximately \$600,000,000). The currency requirements as result of loss of territory, industry, and commerce is generally accepted outside of Germany as being 12% which would reduce the figure of today's requirements on a pre-war basis to 2,100,000,000 gold marks (approximately \$525,000,000). This amount at approximately the current rate of exchange would be 4,200,000,000,000 paper marks, but as the internal purchasing power of the paper mark is about twice its exchange value, we must reduce the figure one-half to get an idea of how much currency Germany really needs. We arrive therefore at 2,100,000,000,000 as the amount of paper marks that Germany ought to have today to meet her business needs. While the foregoing reasoning is admittedly academic in that it disregards certain internal financial, economic and social factors, it nevertheless demonstrates an actual deficiency in the purchasing power of the existing circulating medium which, theoretically, should be maintained at a rather definite ratio to the normal volume of commerce and industry. This explains the apparent anomaly that in spite of the large issues of paper currency it is an undoubted fact that there exists in Germany today a great lack of circulating medium.

The inevitable consequences resulting from much further delay in the settlement of the reparation question, as shown by the rapidly increasing figures of the German Floating Debt and Paper Currency Issues, call for little comment. This lamentable situation is almost entirely the result of the Allied policy in handling the reparation question. The present policy is rapidly leading to:

(a) A lack of confidence both within and without Germany of the latter's ability to weather the approaching financial and economic storms, even provided the Allies forthwith adopt the sanest possible policy of handling Germany. In other words, in the past lack of confidence was based on the presumption that unsound Allied handling

would prevent German financial and economic rehabilitation. It has now passed the foregoing phase and today the lack of confidence rests on the question of whether even with a sound Allied policy it is possible to prevent the catastrophe. Confidence is essential if any outside or even real internal financial support is to be expected.

(b) The accumulative depreciation constitutes a practically insurmountable obstacle to balancing the "Ordinary Budget", it being impossible to increase taxation and public service charges fast enough to cover the growing Government expenditures on account of depreciation.

(c) If it be impossible even to balance the "Ordinary Budget", it makes all hope of bringing reparation and other treaty charges within the compass of another and additional balanced budget fantastic.

The social and economic effects of the constantly depreciating value of the mark lead to:

(a) Constant and disturbing changes in ownerships of real values;

(b) Wiping out the life-time savings and fixed income values of important classes of German society;

(c) Disurbances both within and without Germany incident to the spread between internal and external prices;

(d) Social unrest incident to the efforts on the part of Labor, partially justified and partially unsound, to force wages up with the spread between internal and external prices, etc.

Had Germany followed a sounder financial policy from the time of the Armistice to date, the impending crisis could have been postponed. However, under the unsound policy which has been followed by the Allies the crisis would only have been postponed a few months. The Allied policy has, however, given very little incentive to the Germans to adopt and apply sound principles. It has encouraged extravagance in Government administration and encouraged the export of capital. It is not too late for the Allies to change their policy. It is their duty to bring such pressure on Germany as will force sound administration on the part of that Government. However, if the Allies continue their present policy it can only give encouragement to such decline in public morals and morale in Germany as will shake the very foundation upon which Government, as we understand it, not only in Germany but probably elsewhere in Europe, is based.

Interest in the reparation question now centers in the meeting of the

8
12/8/22

Prime Ministers in London. All are watching the political maneuvers of Poincaré and Bonar Law preceding the meeting. So far as we can gather neither of the gentlemen know exactly what is in the mind of the other.

Rumors and reports of conversations from the Quai d'Orsay, some obviously inspired, serve to confirm our previous reports of the present decided stand of Poincaré. What may be considered as the definite French platform, but which is not announced as constituting "a plan", is generally reported as follows:

1st.- No moratorium for Germany without surrender to the Allies of specific pledges, such as mines and forests;

2nd.- Germany indemnity to be only reduced on parallel lines with the reduction of French and other Allied debts;

3rd.- A revision of the percentages of German payments allocated to the Allied countries. At present France is entitled to 52%. She feels she ought to have more, especially if there is an abandonment of a large part of the total credits. In other words, this means that not only should England forego her credits to France, but should release to the French the whole, or a portion, of her share in German payments;

4th.- When the voluntary default of Germany is clearly established, or the deliberate refusal of Germany to pay or to effect financial reforms at home, it is to be punished by the application of sanctions, such as the deepening and prolongation of Allied occupation, the drawing of the customs cordon around the Ruhr, and the taking over of the general economic and administrative organization of the Rhineland.

The foregoing is approximately in line with the inspired report of the Elysée Palace decision reported in the French press on November 28, and referred to in our letter of December 1, with perhaps more emphasis on the "specific pledge" phase.

On the other hand, Bonar Law has preserved an attitude of great reticence as regard to his position during the approaching meeting. This attitude has undoubtedly been disturbing to Poincaré who, while not sanguine as to the favorable outcome of the meeting, and while apparently not anxious to lay any concrete plan on the table at London, is nevertheless desirous of the London meeting constituting a real stepping-stone leading to the Brussels Conference which latter Conference they sincerely hope will be held. The more general the conversation is at London, if it leads to a Brussels Conference, the more satisfied Poincaré will be. However, Poincaré must reluctantly accept the fact that the determination of whether the Brussels Conference is to be held rests in the hands of Bonar Law; Poincaré not only wishes to push the reparation question but also the Allied debt question with it before the proposed Brussels Conference. It is apparent that Poincaré, in accordance

with his previously announced position of there being a difference between the American foreign debt and the debt as between the Allies proper, would prefer to limit the debt discussion to his thesis. It is equally obvious that the British, who fully appreciate the harmful effect on American opinion of the "Balfour Note" on their position vis à vis America, are not anxious to alone take the initiative in the reopening of the question on the basis of the Balfour Note. Bonar Law's recent parliamentary reference to the effect that his Government "was not bound by the terms of the Balfour Note" only constituted a half-hearted reserve as to future policy concerning the debt question, which can therefore be assumed as "window-trimming" for American public opinion. On the other hand, if Poincaré were to force the issue on the debt question so insistently that Bonar Law could also "tag" him with the responsibility for the reopening of the American phase of the question there are some who feel he would do so. Poincaré, on the other hand, we feel is fully alive to this possibility.

The outcome of the London meeting will be largely reported in the press even before this letter reaches America, and therefore no useful purpose appears to be served by attempting to forecast possible happenings.

Chancellor Cuno's press statement in Berlin on December 3, in which he made a strong appeal for international trust in Germany's endeavor to find a solution of the present world crisis, and for "open man-to-man dealings" on the question, and the statement "it is imperative that we come to a clear understanding with France", and "through ultimatums and threats France can obtain nothing", and "we have obstacles to overcome which grow more and more gigantic from day to day" while making some impression outside of France, has not made much impression on the French Government or French public. Nevertheless, in our judgment, Cuno's statement was sound and a most useful purpose was accomplished by the statement itself. From many sources, including Ambassador Houghton, we get the distinct impression of an honest desire on the part of Cuno to make every concession possible to reach agreement with the French. We know that he has been advised to submit new reparation proposals, including further and as yet unconsidered concessions to the French. Today's papers indicate that such proposals have been formulated and that they will be presented to the Allied Governments today. As yet we have no authentic indication of the details of the new proposals.

As to Poincaré's internal political position: the situation still remains nebulous. The fundamental weakness of Poincaré's political position is based more on his internal policies than on his handling of external questions, including the German reparation question. There is, however, a considerable and growing feeling that an unfavorable outcome of the London meeting may be the "final straw which breaks the camel's back" insofar as Poincaré's tenure of political office is concerned. However, we would still not care to subscribe to the view that Poincaré's tenure of office will be terminated shortly and before real and lasting harm is done.

Faithfully yours,

The Honorable Benjamin Strong,
Governor, Federal Reserve Bank,

New York City.

J. A. L. Jr.

P. S. The recent "Stettin, Passau and Ingolstadt Incident" where certain Allied Military Control officers were threatened and insulted by the German crowd, all of which lead the Council of Ambassadors to transmit a virtual ultimatum to the German Government on November 29, 1922, presents points of interest from its purely financial aspect. This ultimatum, in addition to its demands for formal apology, requires the payment of a fine to the Allies of 1,000,000 gold marks by December 10, 1922, or in default of such payment by the date indicated, the Allies propose taking the same sum out of resources of the Bavarian Government now held in the Saar or Rhineland provinces. The fine appears justified in itself. On the other hand, when Germany owes billions that she can not pay, you do not really get any more by imposing a fine than you would get anyway in some other form. Also, the effect of the fine is to reduce Germany's resources by \$250,000, all of which goes to the Allies.

J. A. L. Jr.

J. A. L. Jr.

COPY - MD

BC

Green
Paris
Dated December 9, 1922
Received 9:34 a.m.

Secretary of State,
Washington.

512 December 9, 10 a.m. B-807.

Miscellaneous reparation receipts November 18 to December 7,
dye-stuffs 55,507, post and telegraph 255 francs credit Belgium.

Boyden.

HERRICK

WBB

JAMES A. LOGAN JR.

Paris, 18 rue de Tilsitt.
13 December 1922.

PERSONAL & CONFIDENTIAL

My dear Ben,

The following is an extract of a cable we just sent Washington, which is self explanatory and which I feel will be of interest to you:-

"FIRST. Bradbury just returned from London Conference informally and confidentially gives us following history negotiations.

SECOND. Poincaré at opening meeting after restating French thesis on reparations and adjustment European interallied indebtedness proposed British accept practically entire French share C Bonds in settlement French debt to Great Britain. Also intimated expectation Great Britain forego her percentage share in future reparations forthcoming from Germany, at same time stating French Government could not agree to any further postponement cash payments unless security actually in hands Allies or in event failure Allied agreement, in hands France alone.

Bonar Law replying stated proposed debt and reparation settlement unacceptable Great Britain as latter in order to pay her American debt had to find cover either through reparations or debt settlements. Also not prepared participate with France in any sanctions on foregoing basis. Mussolini at this point while expressing sympathetic support France nevertheless stated not prepared to become involved or participate any active coercive measures.

THIRD. Bonar Law then said Great Britain prepared to join France in enforcing appropriate sanctions against Germany in event latter's default provided some competent body first determined maximum figure of reparations that Germany could pay and if this figure unanimously accepted. Bonar Law intimated Great Britain willing to adjust European debts to her on following basis, viz: First Great Britain to receive her 22% reparations forthcoming from Germany under his plan of fixing total bill within Germany's capacity. In this connection Great Britain willing discuss accepting prior payment reparation percentage shares to other Allies before demanding her 22%. Second. Simultaneously Great Britain to lay aside her reparation share

"as partial cover for her American debt and at same time cancelling all European interallied indebtedness to her except so much as necessary over and above her reparation credit to meet American bill.

Bradbury confidentially said British estimate total reparation bill under Bonar Law's basis maximum capacity approximately forty billion gold marks, 22% of which is eight billion eight hundred million gold marks or approximately two billion two hundred million dollars which under proposed basis adjustment assuming British indebtedness to America at approximately four billion dollars would reduce all European interallied indebtedness to Great Britain to approximately one billion eight hundred million dollars.

Bonar Law also intimated willingness discuss acceptance from any European Allies additional proportion their distributive share German reparations in liquidation their debt to Great Britain. Bonar Law stated America not involved in foregoing arrangement as Great Britain plans continuing payment our debt simply using German and Allies obligations as outside cover. However in event America granting concessions to Great Britain on account latter's debt he expressed willingness to credit Allies with any resulting benefits.

Mussolini at this point intimated that Italy forced to consider entire question from its practical aspects and therefore Italian sympathy might have to be transferred from France to Great Britain if latter in position to ameliorate conditions Italian debt.

FOURTH. Poincaré then intimated Bonar Law's plan not satisfactory and France in consequence probably forced act alone. Bonar Law in replying and after expressing sympathy for France said the only alternative course would be for Great Britain to simultaneously press France and other European Allies for payment debts.

FIFTH. At this point Conference reached deadlock. However Bonar Law's plan which was only roughly outlined obviously needed further consideration. Poincaré forced to be in Paris this week to answer important interpellations in French Parliament where atmosphere would be improved if no definite break with Great Britain had occurred. Bonar Law desired postpone any chance rupture until conclusion Lausanne Conference. Therefore agreed that Bonar Law's outlined plan would be put in definite shape and transmitted to various Governments for study so that it could be considered January 2

"to which date meeting of Prime Ministers was adjourned.

SIXTH. Bradbury stated all deliberations London calm, business-like and amicable, Poincaré evidently embarrassed by Bonar Law's urbanity and firmness. Bradbury states Bonar Law probably forced to take some exception press reports of Poincaré's yesterday and today utterances concerning happenings in London in British Parliament Thursday to which Poincaré may reply in French Parliament Friday during his interpellation".

Faithfully yours,



JAL/BD

12/13/22

Letter of December 13, 1922

Cable report of London Conference of Premiers held December 9, 1922.

Letter of December 14, 1922

More detailed report of above Conference. The following propositions were made:

1. By M. Poincare:

As condition of any reduction from Schedule of Payments of May 5, 1921, (132 billion gold marks) British Government to accept practically the entire French Share of German "C" Bonds, to forego her "22%" share of reparations and cancel the French debt to Great Britain.

2. By Mr. Bonar Law:

Great Britain to receive 22% of reparations when a figure within Germany's capacity had been fixed and accepted, such share to be reserved as partial cover for her American debt, and all Allied indebtedness to her to be cancelled except that portion necessary to meet her obligations to America.

This proposition was worked out concretely by Sir John Bradbury thus:

Maximum capacity of Germany	40 billion g. m.
British share 22%	8.8 " "
British debt to United States	4.0 billion
British share of reparations	8.8 billion g. m. or <u>\$2.2 billion</u>
Remainder to be prorated among Great Britain's European debtors	\$ 1.8 billion

This would reduce the debts to Great Britain by over one-half.

3. Exhibit "A" - The German proposition, presented by the British but not discussed:

Stabilization of marks and payment of reparation obligations "of the coming years" by means of two loans:

1. An internal loan of 3 milliard gold marks, half for stabilization and half for reparations.

2. A foreign loan of 3 milliard gold marks, particularly for reparations. Bonds to be guaranteed by customs receipts.

Moratorium for two years from all cash payments and all deliveries in kind which cannot be paid for out of the Budgetary surplus. An additional year to be granted for each milliard of gold marks paid to the Reparation Commission from the proceeds of the internal loan.

Letter of December 22, 1922

Exhibit A

Confidential memorandum from the German representative in Paris, characterized by Col. Logan as "biased and unquestionably handed us for propaganda purposes."

This memorandum charges that the French demand for the taking over of State mines and forests in the occupied territory as guarantees for reparation payments is based upon political rather than financial considerations; that the mines are privately owned, and the State forests inconsiderable in extent; that the French by "peaceful penetration," i. e., through schools, theaters, lectures, etc. favors to the agricultural population, are endeavoring to alienate the German population from its allegiance with a view to the ultimate severance of the Rhineland from Germany.

Exhibit B

A speech by Dr. Hermes concerning the Budget and Reparations.

Effects of currency depreciation upon cost of living, Budget, etc. are set forth.

Deficit in trade balance, first ten months of 1922, is estimated at 1 3/4 milliard gold marks.

Cash payments during same period on reparation account are estimated as follows:

Execution of Peace Treaty	928 million g. m.
Under "Recovery Act"	122
Coal Deliveries	179
Livestock "	70
Chemical products	14
Compensation payments	<u>177</u>
Total	1,390 million g. m.

Dr. Hermes demands a speedy and final determination of the reparation problem. Stabilization of the mark is imperative, and requires foreign aid, but in order to regain foreign confidence, Germany must herself begin the process of stabilization, and to that end, all classes must unite in making the sacrifices which are inevitable if the country is to be rescued.

Exhibit "C"

Italian Government's Reparation and Debts Plan Presented to Allied Ministers in London, December 9, 1922.

Suggestions as to regulation of "C" bonds.
Reduction of German reparation debt to 50 milliard gold marks.
Two-year moratorium.
Loan of 3 milliard gold marks, 1/5 to be used for stabilization of mark, remainder for reparations.
Continuance of deliveries in kind.
Control of German finances by Reparation Commission.
Resumption of payments after moratorium.

Exhibit D

The Financial Situation: Germany and France. Confidential memorandum by Professor Jenks for the French Foreign Office.

Influential Germans state that while they expect to pay, they cannot pay the amount asked, and are unwilling to commit themselves until definite terms of payment are settled. The German belief that France desires to crush German industry creates hostility. France disavows such a desire, but demands security against attack. Germany asserts France has no grounds for fear, provided she is willing for German industry to develop.

France needs and should receive as large reparations as Germany can pay. Her present policy of meeting budget deficits by borrowing is dangerous and cannot be continued indefinitely. The budget can be balanced in only the following ways:

- (a) By large German reparations. This is probably possible after from two to five years.
- (b) By reduction of Governmental expenses. Not much saving is possible here.
- (c) By increased taxation, particularly on agriculture.

While not one of the above would suffice alone, ~~but~~ a combination of the three might be effective, and with foreign aid would be practicable.

Professor Jenks suggests: -

- (a) Final settlement of reparations terms.
- (b) International financial syndicate for loan to Germany to be used largely for reparations payments, to tide France over a moratorium during which Germany is getting into condition to continue her payments.
- (c) Moral and financial support for France from the international financial syndicate, to enable her to put her finances permanently in order. This requires (1) stabilization of the franc on a gold basis, probably at 40 to 50 centimes gold and (2) increased taxation.

America would probably help, provided the outcome promises to be peace. It would be unwise for France or others:

- (a) to suggest at this time cancellation or reduction of debts due to the United States or (b) to ask the American Government to make a loan to France or Germany.

It would be wise for France to:

- (a) make clear that she wants a final settlement with Germany on fair terms, (b) grant Germany special discounts for prompt payments, (c) agree to gradual withdrawal of troops in proportion to Germany's payments, (d) increase her own taxes to help herself balance her budget. If France would adopt some such policy, Americans will be glad to help.

Letter of December 23, 1922

Amended estimate of volume of currency now required in Germany.
Supplementary to letter of December 8, 1922.

JAMES A. LOGAN JR.

Paris, 18 rue de Tilsitt.
14 December 1922.

PERSONAL & CONFIDENTIAL

My dear Ben,

There has been no discussion within the Commission during the last week on the reparation programme for 1923. The question still rests in suspense pending the decision of the Governments. The Prime Ministers met in London December 9, 1922. The meetings were adjourned December 11 to reopen January 2, 1923.

Sir John Bradbury who was in London during the meeting of the Prime Ministers as one of Mr. Bonar Law's principal advisers has given us confidentially and quite informally an account of happenings in London. We have already cabled a brief of Sir John's account to Washington. Since cabling we have received certain additional information which is contained in the following more detailed account.

M. Poincaré at the opening of the meeting restated his old thesis concerning reparations; the precarious situation of France's finances and the necessity of rebuilding the devastated areas; the dishonest efforts of the Germans to avoid payment; the necessity of bringing pressure to bear on German industrials so as to make cash forthcoming; etc; and finally the necessity on all the foregoing accounts of seizing and holding guarantees to assure eventual payments, particularly in the event of any further moratorium in reparation payments being accorded. At the same time he advanced his ideas as to the co-relation existing between the settlement of European Inter-Allied indebtedness and reparations. We understand he did not touch on the question of the American war debt vis-à-vis its European debtors. As a primary condition to any reduction of the total bill of damages as fixed by the Schedule of Payments of May 5, 1921 (i.e. 132 billion gold marks, represented by 12 billion A Bonds, 38 billion B Bonds, and 82 billion C Bonds), he proposed that the British Government accept practically the entire French share of C Bonds (52% of the 82 billion C bonds less such portion of the C bonds as represents Germany's Treaty liability for the reparations totals of the Ex-Enemy Powers associated with her in the Great War) which in accordance with figures of present value, following Poincaré's discount formula, approximately tallied with the French debt to Great Britain. With such chimeric factors of relative values, it appears a pure waste of time to further elucidate the arithmetic process employed by M. Poincaré in arriving at his foregoing conclusion. M. Poincaré then intimated that he would expect Great Britain to forego her "22% share" in future reparations. In other words and as a preliminary to any business-like consideration of the reparation question, M. Poincaré demanded that Great Britain ~~in~~ not only cancel France's debt obligations to her, but also renounce all participation in future reparation benefits. He finally pushed for immediate consideration of the reparation and European Inter-Allied debt question before a Brussels Conference, stating, in

general terms, that the French Government could not agree to any further postponements of reparation payments unless security was actually in the hands of the Allies and in the event of failure of Allied agreement he reserved complete liberty of action for France.

Mr. Bonar Law replied by calmly stating, in effect, that the very definite debt and reparation settlement plan exposed by M. Poincaré was unacceptable, and that on this account he could see no useful purpose in referring the matter to a Brussels Conference. Mr. Bonar Law went on to say that Great Britain, in order to pay her American debt, was forced to find some cover either through reparations or debt settlements. Mr. Bonar Law then said, in effect, that while having every sympathy with the unquestionable equitable rights of France to complete reparations, Great Britain was nevertheless not prepared to participate with France in applying any sanctions or other coercive measures against Germany on the basis of M. Poincaré's thesis. The latter, in his opinion, obviously constituted a demand on Germany for the impossible, which would not only be fruitless of all benefits but even dangerous of consequences.

Signor Mussolini at this point made a statement expressing "sincere and cordial sympathy" with the Poincaré thesis, with, however, the important qualification that so far as Italy was concerned, it was not prepared to become involved or participate in any coercive measures taken under it.

Mr. Bonar Law then made a statement to the effect that Great Britain was prepared under certain conditions to join France in the enforcement of appropriate sanctions against Germany in the event of the latter's default in making reparations. His conditions were that a competent, expert body first determine the maximum figure of reparations that Germany could pay, and that this figure be unanimously accepted. On such a basis, he promised "shoulder-to-shoulder" support with France in the event of German default, for under such conditions a default could only be "voluntary and wilfull", in which event extreme measures were appropriate and necessary.

Subject to the foregoing, and with great caution and reserve, Mr. Bonar Law then outlined his basis for adjustment of the European Inter-Allied debt vis-à-vis Great Britain. His outlined plan was on the following general lines:

- 1st.- Great Britain to receive 22% of reparations forthcoming from Germany under his reserve of fixing the total bill within Germany's capacity. In this connection, he said Great Britain was willing to even discuss according certain priorities or aid to the other Allies in actually realizing on their percentage share of reparations before demanding her 22%.
- 2nd.- Great Britain to lay aside her reparation share as partial cover for her American debt, simultaneously cancelling all European Inter-Allied indebtedness to her, except so much as necessary over and above

her 22% reparation share cover as necessary to meet the American bill.

Sir John Bradbury confidentially said that the present British estimate of the total reparation bill under Mr. Bonar Law's thesis of fixing such bill at the maximum capacity of Germany was approximately 40 billion gold marks. The British share, or 22%, of this figure is 8.8 billion gold marks, or approximately 2.2 billion dollars. Under Mr. Bonar Law's proposed method of European Inter-Allied indebtedness adjustment, and assuming the British war indebtedness to America at 4 billion dollars, the total sum due Great Britain from all her European debtors after the proposed adjustment would be reduced to 1.8 billion dollars prorated amongst them. In other words, and assuming France, Italy and Belgium, as the principal beneficiaries under the Bonar Law plan, their respective debts to Great Britain would be reduced by over one-half.

Mr. Bonar Law also intimated the willingness of his Government to discuss acceptance from any of the European Allies of portions of their newly adjusted distributive share in German reparations in further partial or perhaps even complete liquidation of their individual debts to Great Britain. Mr. Bonar Law finally suggested that in the event of Great Britain securing any as yet unexpected beneficiary treatment on account of her debt to America, his Government was prepared to grant the Allies their proportionate share in such benefits.

Mr. Bonar Law pointed out that America was not involved in the foregoing arrangement as Great Britain contemplated continuing liquidating her American debt simply using the German reparation and Allied obligations as outside cover for such payments. In other words, this plan constitutes the Bonar Law Government departure from the previous British Government position vis à vis Great Britain's American debt as set forth in the Balfour Note.

Signor Mussolini at this point stated, in effect, that Italy was forced to consider the question from its practical aspects, and that he was in consequence very much impressed by Mr. Bonar Law's outlined plan. On this account, and with great regret, he might find it necessary at most any moment to transfer his heretofore expressed "Italian sympathy" for the French thesis to the British thesis, provided Great Britain became actually in position to ameliorate the Italian debt position along the lines indicated. This essentially practical statement caused some amusement.

The proceedings during the meetings were marked by great calmness, and particularly by the urbanity and extreme courteousness of Mr. Bonar Law in his handling of M. Poincaré. From what we gather, this atmosphere so different from the atmosphere previously encountered in meetings between the British and French, was somewhat embarrassing to Mr. Poincaré. Mr. Bonar Law's attitude, while polite and courteous, was nevertheless unmistakably tenacious and firm. M. Poincaré who has been doing so much threatening preceding the meeting was apparently somewhat nonplused by the situation as he found it, as there existed no basis in the attitude of anyone for a quarrel attractive to public opinion.

M. Poincaré finally intimated that the Bonar Law plan was not satisfactory, and that France in consequence would probably be forced to act alone.

Mr. Bonar Law, after expressing every sympathy for France, stated, in effect, that the only alternative course for Great Britain under such circumstances would be for the latter to simultaneously press France and the other European Allies to commence payment on their debts to Great Britain, as such payments were essential to Great Britain to meeting her American indebtedness.

At this point the Conference reached a deadlock which might have been a definite rupture of negotiations. Such result was not desired by either M. Poincaré or Mr. Bonar Law. M. Poincaré was forced to return to Paris to answer interpellations in the French Parliament on December 15, where the atmosphere would be improved if no rupture with Great Britain had occurred. Mr. Bonar Law, on the other hand, desired to postpone all chance of rupture until after the conclusion of the Lausanne Conference. As the Bonar Law plan which was only roughly outlined during the meeting presented so many new features requiring detailed elaboration and study, unanimous agreement was readily reached for the adjournment of the meetings of the Prime Ministers to January 2, 1923, in Paris. Therefore, on January 2, 1923, the questions as originally posed in London on December 9 concerning reparations and European Inter-Allied indebtedness, together with the question as to whether or not a Brussels Conference will be held, its scope, etc., arise in their original form.

We enclose as Exhibit A copy of a communication from the German Government prepared for the Prime Ministers' meeting of December 9 in London. This document was presented to the meeting by the British, but in deference to M. Poincaré's attitude, it was not discussed in any detail notwithstanding the desire on the part of the others for such discussion. It was not "thrown out of the window" as alleged by the French Press.

The period of moratorium accorded Germany by the Reparation Commission's decision of March 21, 1922, expires January 1, 1923. Automatically, full payments as provided in the Schedule of Payments of May 5, 1921, become obligatory on Germany as for the year 1923. The first payment due is 500 million gold marks on January 15, 1923 ("1st Quarterly Instalment of the fixed Annuity"). Whether agreement will be reached in Paris, or elsewhere, before January 15, or whether France will break with Great Britain and adopt an isolated policy against Germany, remains to be seen.

The reported utterances of M. Poincaré in the French press since the London meeting, while still excessive in tone, nevertheless show some calming of attitude. This is particularly brought out by semi-official announcements from the Quai d'Orsay to the effect that, "while M. Poincaré steadfastly stands by his thesis of the necessity for seizure of important German security, he has nevertheless not definitely determined whether a seizure or occupation of the Ruhr is the best under the circumstances". Partisans of the French Government have made the attempt to give the public the impression that Mr. Bonar Law actually agreed to the cancellation of the French debt "with no strings tied to it"; that he perhaps "tacitly accepted the Poincaré thesis of guarantees"; that "anyhow British opposition to the French plan if carried

out would be passive and not positive", etc., whereas, the conditions of Mr. Bonar Law's outlined offer and statement of "support" included distinct reserves based on the future conduct of France's handling of Germany. Mr. Bonar Law is to day presenting his Government's position to the British Parliament. Following our information, he will take this occasion to publicly, though tactfully, correct these obviously false impressions. We are somewhat fearful that the present "calming of attitude" of M. Poincaré is dictated by a desire to eliminate certain acute phases of the reparation question from tomorrow's interpellation in the French Parliament, and therefore that it does not necessarily imply any real change of the "bloody shirt" policy of handling Germany.

While French opinion is becoming educated to the realities of the German situation, and the dangers incident to isolation and precipitate action, it has not as yet become so deeply affected as to tie the hands of M. Poincaré before real damage is done. As stated before, M. Poincaré's political weakness and vulnerability to attack today is primarily based on parliamentary opposition to his internal political policies which are entirely disconnected with external questions. The speech of M. Clemenceau just before sailing from America in which he took up the cudgels against M. Poincaré in his demand to the French people for "Allied accord and agreement"; "the futility and dangers of a Ruhr occupation"; etc., will have its effect on French opinion, particularly as coming from one who had heretofore been represented in French public opinion as the antithesis of just such points of view. However, M. Clemenceau's influence in French parliamentary circles at the moment is of questionable importance.

We have seen so many of these crises resolved, as it were by miraculous intervention, that we are far from predicting that Poincaré will take forcible measures, but if he does not, he must make a complete and ignominious "back-down". Under such circumstances one who "guesses" that Poincaré is going to back down takes a chance.

We are also impressed with the fact that the miraculous interventions of the past have taken the form of some foolish compromise. In the present crisis the foolish compromise and the foolish militaristic perversity will be equally harmful. Any solution, to be useful, must be radical and sensible. It must meet all the real needs of the situation.

Faithfully yours,

J. A. L. Jr.

JAL/BD
1 encl.

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

Enclosure, Doonan's letter 7/14

Exhibit "A"

12/14/22

COVERING LETTER OF HERR CUNO, CHANCELLOR OF
THE GERMAN GOVERNMENT FOR PRESENTATION TO THE CON-
FERENCE OF PRIME MINISTERS IN LONDON DECEMBER 9TH, AND
PROVISIONAL NOTE OF THE GERMAN GOVERNMENT FOR A PROVISIONAL
REGULATION OF THE SITUATION.

The accompanying Note is a basis for finding a clear solution of the economic and financial problems necessary to the salvation of Germany and Europe. The present is not the moment for taking half measures. A definitive solution of the reparation problem must be found. The German Government has resolved to enter on this road. Up till now there has been no time to send a definitive study; but in view of the fact that the moratorium is about to end, it is our duty to make proposals. This is why the annexed proposals are made to prepare the way. Dr. Bergmann is in London to give all the necessary explanations. The German Government expresses its hope that these proposals will be a suitable basis for pourparlers.

The German Government considers that a solution is urgent and desires to collaborate with all its power in seeking for one. It considers that the first thing to do is to bring about the stabilization of the mark and an arrangement for the reparation indemnities for the coming years. To this end the Government makes the following proposals:-

(1) Stabilization of the mark. The German Government recalls the Note of Chancellor Wirth, which Chancellor Cuno adopted in its general lines in the speech made by him on entering on his duties. While awaiting the grant of a foreign credit for stabilization, the German Government wishes to begin the stabilization by its own efforts; only it cannot contemplate this unless there are suitable arrangements for the payment of the coming reparations and unless it can pursue trade freely.

(2) Reparations. To replace the obligations of the coming years by a gold loan to be issued in Germany and abroad. The total of the foreign loan will serve for reparations, and one-half at least of the internal loan will be devoted to the stabilization of the mark. The Government is ready to enter at once into negotiations to put its ideas in practice. The Government will grant exemptions of taxes to those who subscribe to this loan, with the object of bringing about a return of capital which has escaped to foreign countries; this loan should be admitted to international markets; one-half of the loan will be devoted to the Reparation Commission and the other half, e.g. one and a half milliards of gold marks (475,000,000), will be employed for stabilization of the mark.

At the same time, that it issued this loan the Government would issue abroad a loan of e.g., three milliard gold marks (3150,000,000), particularly for reparations. It undertakes to make the payment of the interest and of the amortization of these obligations. By means of the issue of these two loans the German Government asks to be freed from all payments imposed by the Treaty of Versailles for two years, and also from all the deliveries in kind which cannot be paid by the surplus of the Budget.

The internal loan would lead to the hope that the Budget might be balanced, and consequently to payment in kind. The German Government would ask that for each milliard of gold marks paid to the Reparation Commission on the produce of the internal loan there should be a new year of moratorium.

(3) Guarantees. The gold bonds transmitted to the Reparation Commission would be guaranteed by the receipts of the Customs, and would rank before all the obligations of Germany resulting from the Treaty.

NY-20

GREEN
Paris
Dated December 22, 1922
Recd. 6L38 p.m.

WP

Secretary of State,
Washington, D. C.

538, December 22, 6 p.m.

B 813. Commission received German treasury bills credit Belgium
52 million gold marks payable June 15th, 1923, compliance Commission
decision 31st August. Difference this sum and 60 million due December
15th covered by other credits.

BOYDEN

OX

JAMES A. LOGAN JR.

Paris, 22 December 1922.
18 rue de Tilsitt.

Personal and Confidential.

My dear Ben:-

There has been no discussion within the Commission during the last week on the reparation programme for 1923. We are informed by Sir John Bradbury that there was a gentlemen's understanding at the close of the London meeting (December 12, 1922) between M. Poincare and Mr. Bonar Law to the effect that their respective Delegates on the Commission would avoid all discussions on controversial subjects which might lead to division within the Commission until after the next meeting of the Prime Ministers in Paris on January 2, 1923.

Aside from the all-important question of fixing the reparation programme for 1923 there are two other important and controversial questions pending, viz:

Action by the Commission on:

- (a) Germany's failure to completely meet demands for coal during the year 1922; and
- (b) Germany's failure to meet demands for timber during the year 1922.

As previously reported, these two questions are in such position that if pushed must lead the Reparation Commission to formally reporting to the Allied Governments these failures of Germany as "defaults" under Par. 17, Annex II, Part VIII, of the Treaty. M. Poincare has consistently held that France, or any of the other Allies, in the event of a formal report of "default" has complete and individual right to determine and carry out the "measures necessary in the circumstances". On the other hand, the British thesis in the past has been that "measures" taken under Par. 18, Annex II, Part VIII, require agreement of the Allies before becoming operative. In our own judgment the legal premises of the question are debatable but not of much practical importance in view of M. Poincare's very definite stand.

Sir John Bradbury tells us that he has just received a message from M. Barthou to the effect that France may be forced to push the questions of Germany's failure to meet the Commission's demands for coke and timber at a formal Reparation Commission meeting before December 31, 1922. Sir John is disturbed by this message not knowing its significance, particularly as M. Barthou indicated his pushing of the question was on the initiative of M. Poincare, and therefore from its superficial aspect opposed to the gentlemen's understanding

in London. M. Delacroix is more surprised than Sir John and has been trying to find out from the French what it means, but so far without results. We, on the other hand, are not particularly disturbed for even if the Commission be forced by M. Barthou to report a "default", the Commission has the opportunity of taking advantage of Par. 17, Annex II, Part VIII, of the Treaty which provides that the Commission when so reporting to the interested Powers "may make such recommendations as to the action to be taken in consequence of such default as it may think necessary". As a condition to agreement to reporting a "default", M. Barthou may well be forced to join in the "recommendations" which would leave little but a technical gain in position for M. Poincare. The facts are that at the time the demands were made on Germany for both coal and timber the Commission itself was convinced that the German Government was not in a position to meet the demands and that a technical report of "default" was the only possible outcome. Under such circumstances what harm can there now be by so reporting and including in the "recommendations" the history of the incidents?

However, the somewhat precipitate French action in pushing for a "default" before the January 2 meeting is somewhat disconcerting in that this action almost immediately followed a confidential conversation between Lord Derby of the present British Ministry and M. Poincare which was announced in the French press as "satisfactory". The question now raised is whether the conversation was "satisfactory" and if not what does this new French action portend? According to Sir John Bradbury, Lord Derby's visit to M. Poincare was not only for the purpose of exploring the field with a view to finding a basis for conciliation of Franco-British views before the January 2 meeting, but also for the purpose of correcting certain impressions which M. Poincare had been spreading regarding his personal conversations with Mr. Bonar Law in London. M. Poincare was reported as stating concerning his conversations with Mr. Bonar Law that the latter had intimated that as the British Parliament would not be in session during the period of the approaching Paris conversations of the Prime Ministers he intended according M. Poincare the greatest possible liberty in handling the German situation, so that French action might be a "fait accompli" before embarrassing questions could be raised in the British Parliament. Sir John Bradbury said that Mr. Bonar Law was disturbed by this story which was without foundation in fact.

On Friday, December 15, M. Poincare in a long speech defined his attitude during Parliamentary interpellations on the conduct of affairs by his Ministry. As a result Poincare received a vote of confidence of 485 votes against 66---in other words, a most satisfactory majority. M. Poincare's speech was markedly more moderate in tone in the treatment of the German question than any heretofore made by him. He was eulogistic in his tribute to the conciliatory attitude of the new British Government; pronounced in his criticism of the attitude of the Germans and the German Government; and laid particular emphasis on the relation of interallied debts, including America's war advances, to future reparation payments. He stated in effect that France was willing to hand over her German reparation C Bonds in settlement of her indebtedness to Great Britain and the United States. At the same time he suggested as an aftermath to such adjustment all join in considering a reduction of the German indemnity by cancelling German C Bonds then held by each. He went on to say that after such sacrifice by France in surrendering its C Bonds in settlement of its debts, France could make no further reduction of the sum then left due her by Germany, or grant concessions concern-

ing the priority in payment accorded by the A and B German Reparation bonds she would then ~~also~~ hold. He said that, France needing money without delay, it was in the interests of not only the Germans but of the entire world to see that Germany's debt as represented by the A and B reparation bonds be covered as soon as possible by loans both within and without Germany. He supported the views in the Germans' Experts Committee's report signed by Messrs. Brand, Cassel, Jenks and Keynes, to the effect that the mark may be stabilized by German Government action alone and without recourse to outside loans for the purpose. He advocated the immediate institution of a strong financial control of Germany. He intimated, without details, that important concessions concerning reparations and inter-allied debts had been made by the new British Government and that these would be further discussed in Paris on January 2. He finally concluded with a general statement to the effect that "we sincerely desire the joint support of our Allies in any measures to be undertaken, and we are doing everything possible to obtain such support. We would feel great regret if forced to take measures independent of our Allies, but in any event, we would never do anything that was not in the common interest. If we are finally forced to instal engineers and customs agents in various parts of Germany, France will always reserve places for engineers and customs agents of her Allies. France spontaneously asks for participation by her friends in any measure in which she is forced to take the initiative. France insists that she is not guided by any military motives, or by any motives or designs for gaining additional territory."

The foregoing are the salient points of M. Poincare's speech. It is of interest to refer to so much of his statement as deals with "engineers and customs agents" instead of past references to "military occupation". Obviously, the use of the terms "engineers and customs agents" is calmer in tone than "military occupation". However, it is difficult to understand exactly what the term "engineers and customs agents" really means, and whether in certain contingencies it might not lead to military support which in the end is "military occupation".

M. Poincare received a unanimous vote of confidence in the French Senate on the 21st instant when answering the interpellations of the Senate on his policies. His speech in the Senate rehearsed most of what he had previously said in the Chamber. However, there are certain points which he elaborated which are of interest. He declared that the settlement of the question of reparations was one which could not be properly placed in the hands of bankers. "It was a question to be settled by the Governments through the medium of the Reparation Commission". He said "Germany has persisted in its evil deeds and ruined itself systematically to avoid paying reparations. Now, we hear talk of a moratorium and an elastic one no doubt of lengthy duration, but would Germany profit by it to regulate its finances? The past makes us distrustful, therefore it is necessary that Germany be placed under effective control. Do we wish to ruin Germany? It is an absurd calumny. We would not oppose any efforts Germany might make to stabilize her money. We would even congratulate ourselves on any loans either interior or outside the country that it might make which will permit it to pay its debt." He again repeated his eulogistic tribute to the Bonar Law Government, intimated that Bonar Law had offered large concessions concerning inter-Allied debt settlements, and finally regarding the January 2 meeting, he stated "We are none of us going there seeking a personal success, and if there are divergencies of opinion among us we will try to see that they never lead to discord. We

will keep strong the ties that bind us which are not only those of brothers in arms but those which are born of the same faith, liberty and justice."

M. Delacroix, while informally discussing the importance to be attached to the great vote of confidence M. Poincare received in the French Parliament, expressed the opinion that it had no significance, other than the desire on the part of parliamentary leaders to give M. Poincare a free hand in the negotiations opening on January 2 in Paris. He pointed out that M. Poincare in this particular vote of confidence was supported by French political leaders whose opposition to M. Poincare personally and to the latter's policies was a well established fact. In M. Delacroix' judgment, the calming tone of M. Poincare's speech and particularly that portion substituting "engineers and customs agents" for "military occupation" indicated that a temporary compromise as between M. Poincare and the other parliamentary leaders had preceded the meeting of the French Parliament. While we would not definitely subscribe to Delacroix' views they are nevertheless of interest as coming from one who has had so much European parliamentary experience.

There are many reports being circulated in the French press to the effect that a basis of compromise may be reached on January 2 providing for a two-year moratorium to Germany, on the condition that the German Government: (a) submit its finances to Allied control and institute such reforms as Allied experts deem indispensable; (b) raise a forced internal gold loan to be applied to the stabilization of the mark; and (c) consent to the Allies taking over state mines and forests in the occupied territory, as well as the customs receipts as guarantees. These reports intimate that France is willing to waive immediate occupation of the Ruhr on condition that Great Britain consents to its seizure in the event of Germany failing to comply with the foregoing conditions of moratorium. The reports intimate that a "minor difficulty" to be overcome is that M. Poincare while perhaps agreeing to a moratorium for cash payments, is anxious that Germany should be obliged to continue payments in kind. The British have heretofore felt that the moratorium should be complete, whereas the French, while probably willing to consent to a scaling down of deliveries in kind, are nevertheless insistent that Germany maintain substantial deliveries. Obviously this reported plan of compromise is also predicated on an adjustment of interallied debts. It is not as yet clear whether the French are prepared to accept the Bonar Law's debt adjustment plan with the conditions as outlined during the recent London conversations of Prime Ministers (See our letter of December 14, 1922).

In connection with the general question of "Taking over State Mines and Forests in the Occupied Territory as Guarantees for Reparation Payments", attention is invited to Exhibit A herewith. This memorandum is a confidential one handed to us by the German Government's representative in Paris, and purports to show the political rather than the financial aims of the proposed taking over of State mines and forests in the Occupied Territory. It is obviously biased and was unquestionably handed us for propaganda purpose. However, it has special points of interest on which account we transmit it.

We also enclose as Exhibit B copy of a speech made by Dr. Hermes, the German Finance Minister, on December 7, concerning the German Budget and Reparations. In our judgment, his speech is of particular interest as portraying the difficulties of the German Government vis-a-vis its budgetary position.

Enclosed as Exhibit C is a copy of the "Italian Government's Reparation and Debt Plans as presented to the Allied Prime Ministers in London December 9, 1922" as printed in the public press. This plan is interesting to us as showing Signor Mussolini's attitude concerning Europe's debt to America, and his views as to the connection of this question with that of reparations. It will be noted that this plan follows in its broad lines the original Poincare thesis. We would not venture an expression of opinion as to whether this is the present attitude of the Italian Government. It may be that this memorandum was the expression of Italy's "sincere and cordial sympathy with the Poincare thesis" at the beginning of the London conference on December 9 (See page 2, our letter of December 14, 1922). On the other hand, it may have been put aside when Signor Mussolini, after having listened to Mr. Bonar Law's proposals in London, indicated the possibility of a transfer of "Italian sympathy" from France to Great Britain (See page 3 of our same letter).

Enclosed as Exhibit D is a confidential memorandum prepared by Professor Jenks for M. Seydoux of the French Foreign Office on the "Financial Situation: Germany and France". Copy of this memorandum was handed us quite informally by Professor Jenks. It has points of interest as showing the difficulties of the French budgetary position and the connection of the latter with the reparation question. The French for good reasons are no little concerned with their budgetary difficulties, and the very serious condition of affairs towards which their public finance is headed. While as yet there is no real indication of falling off in confidence on the part of the French people in their Government's fiscal administration, there are nevertheless indications of uneasiness. They are still dreaming, but uneasily, that interallied indebtedness will be cancelled, that some means will be found for the stabilization of the value of the franc, and that through some development of "international economic solidarity" some scheme the details of which are not clear will be found by which the relation of the franc, dollar and pound, will be pegged. All the foregoing without the necessity of higher taxation, sacrifice of political positions and views, etc., in certain quarters there are indications of plans being formulated for the export of capital, i.e., particularly the desire of converting franc holdings into pounds and dollars. None of these signs are as yet in any way alarming. However, they all have a certain importance and significance in relation to present French policy.

The wildest reports as to "the American Government's interest in the reparation question", the possibility of "American bankers granting the most fantastic loans to Germany", etc., appeared in the American-European press about December 15. These reports were at once taken up by the European press and widely heralded for several days. The absurdity and nonsense of it all did not make itself felt abroad until about the 20th, when the fallacy of the reports was finally realized by the public. We are informed by American newspaper men that M. Poincare sent for them and in effect declared that "France would not accept any new plan involving the evacuation of the Rhineland in the near future, nor any change in the provisions of the Versailles Treaty which calls for at least 15 years of occupation". When speaking of the reported American plan for a loan to Germany, he is reported to have said, in effect:

"The plan reported in the Paris press appears to come from Germany to France via New York. Neither the French

"Embassy at Washington nor the American Embassy at Paris knows anything about the proposals."

The "Temps" whose leader is considered as being a quasi governmental utterance came out under the heading "Not Great Conference" with the statement that:

"A new flock of American projects has alighted upon the somber pond of the reparations problem. In vain has the learned correspondent of the London Morning Post cabled from Washington that all these news reports are fantasies.

"They continue to recount in all seriousness that the government of the United States is going to propose to remake the Treaty of Versailles, to evacuate territories on the Rhine, to reduce the German debt, and to take from the Allies the lien they possess on the resources of the German state, in consideration for which the Allies will be asked not to demand a remission of their debts to the United States, and the American bankers will make one or two little loans to Germany.

"The product of these loans is to be held sacred above everything else for the purchase of various goods in America, to the end that the American electors shall be content. These inventions would be more suitable to the days of Mardi Gras than those which precede Christmas. They would excite then a fresh gaiety, even if some of their implications did not leave a bitter taste.

"The United States did not ratify the Treaty of Versailles, and it was in opposition to that treaty that the President was elected. The United States signed a separate peace with Germany. It does not wish to abandon its credits to the Allies.

"We do not pass judgment upon this policy; we relate it merely. But we state at the same time that the present Government of the United States can not change its policy without disavowing its own course, and exposing itself to serious embarrassment at home.

"If the Government participated in a conference on reparations, the Allies could not ask it to sign the political clauses of the Versailles Treaty, to ratify the Franco-American Pact, nor to abandon its war loans. What role then would the American delegates be forced to play?

"Not being in a situation to bring forth any new policy, they could do no more than patronize the programs of bankers and private enterprise. The adversaries of the administration would accuse them quickly of becoming involved in entanglements and sacrificing the general interest of the people to particular ones.

"There have been too many conferences. The French public is tired of them. If it were proposed to enlarge the forthcoming Conference France might finish by wishing that there were no conferences at all until after she had acted."

The result of all the foregoing was a strengthening in the German mark, the French franc, and other continental currencies, which strength rapidly evaporated when the fallacy of the reports was appreciated.

Faithfully yours,

John C. Lutz

JAL/AJG

Loose in file

Encls. 4.

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

JAMES A. LOGAN JR.

Paris, 23 December 1922.
18 rue de Tilsitt.

My dear Ben:-

I wish to refer to my letter of December 8, 1922, Paragraph III, Page 2; in which I presented certain calculations as to the approximate currency needs of Germany based on figures of the pre-war currency issue. I now find that the pre-war basic figures which I used were incorrect as they only included Reichsbank Notes and Darlehenskassenscheinen. The other note issues, plus the gold and silver coin in circulation, give a total of the monetary circulation of Germany preceding the War of about 5,500,000,000 marks at par, equivalent to approximately \$1,375,000,000. Paragraph III, as modified, should therefore read as follows:

" III. Just preceding the Great War Germany actually had for day-to-day needs a total monetary circulation (not including metal reserves against note issues) of about 5,500,000,000 marks at par, equivalent to \$1,375,000,000. The currency requirements as result, of loss of territory, industry, and commerce is generally accepted outside of Germany as being 12% which would reduce the figure of today's requirements on a pre-war basis to say 4,500,000,000 gold marks (approximately \$1,125,000,000). This amount at approximately the current rate of exchange would be 8,500,000,000,000 paper marks, but as the internal purchasing power of the paper mark is about twice its exchange value, we must reduce the figure one-half to get an idea of how much currency Germany really needs. We arrive, therefore, at 4,250,000,000,000 as the amount of paper marks that Germany ought to have today to meet her business needs. While the foregoing reasoning is admittedly academic in that it disregards certain internal financial, economic and social factors, it nevertheless demonstrates an actual deficiency in the purchasing power of the existing circulating medium which, theoretically, should be maintained at a rather definite ratio to the normal volume of commerce and industry. This explains the apparent anomaly that in spite of the large issues of paper currency it is an undoubted fact that there exists in Germany today a great lack of circulating medium."

It will be noted that the figures as modified serve to further emphasize the conclusions.

Faithfully yours,

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

James A. Logan

2306. - DELIVERIES OF TIMBER IN 1922 (Annex 1666 g-h).

1. The CHAIRMAN, on behalf of the French Delegation, requested the Commission to note officially a default by Germany.
2. Sir John BRADBURY understood that the Chairman was referring to the report (Annex 1665 b) which had been signed by the French Member of the Managing Board of the S.R.R.K. Sir John BRADBURY did not quite understand why the French Government's demand had taken this form. The Services of the Commission were primarily interallied, although it was true that the Delegations had a call on a certain portion of the time of the Members of the Services. He supposed that the document in question had been signed by M. Boris, acting primarily as an official of the French Government. It appeared to him very strange that the question should have been raised primarily, not in the Commission itself, but in a sense behind its back, in one of its services.
3. The CHAIRMAN expressed his surprise at the astonishment shown by Sir John Bradbury. On frequent occasions he had spoken to the Commission of Germany's default in the execution of the deliveries of timber and had announced that he reserved the right of having the matter shortly placed on the Commission's agenda. He had therefore the right to be surprised that this question of procedure should be raised at that meeting. In point of fact, if Sir John Bradbury had

considered the procedure adopted by the French Delegation irregular, he might have drawn attention to it a month earlier. The Commission would then have considered the procedure; either it would have regarded itself properly informed of the question, or the Chairman would have brought it before it. He therefore did not accept the expressions employed by Sir John Bradbury since he was convinced that he had acted throughout the affair as was always his custom with irreproachable loyalty. In any case, and whether there were or were not any difficulty in regard to procedure, he now, as head of the French Delegation brought officially before the Commission the question of Germany's default.

4. Sir John BRADBURY did not in the least dispute the French Delegate's right to raise the question in the Commission. The Chairman had on several occasions referred to his intention to raise the question, and on each of those occasions Sir John BRADBURY had not only admitted the French Government's right to bring it before the Commission, but had said that it was a part of a larger question of very great importance for France; indeed, it was largely owing to his representations that the present meeting had been held somewhat earlier than might have otherwise been the case. The grounds of his objection he would explain later; meanwhile, he accepted the situation that the French Delegate had at that meeting raised the question whether or not Germany had carried out her obligations for 1922.

5. The CHAIRMAN noted in consequence that as Sir John Bradbury himself admitted, he had on several occasions brought the question before the Commission officially and unofficially. The Commission had moreover given a hearing to the German Government in the first place on the programme of timber deliveries for 1922 and the programme of coal deliveries for the current quarter, and subsequently in a special hearing on the question of default. These were the facts of the case and Herr Fischer, when interrogated at the first hearing on the question of timber, had replied that he had no mandate to give an answer concerning the deficits in the deliveries for 1922. A subsequent hearing took place on the special question of the deficits. It was therefore of no object to argue further on the regularity of the procedure which could not be called in question and the CHAIRMAN noted, in agreement with Sir John Bradbury, that the Commission was not regularly informed of the question of default.

6. Sir John BRADBURY pointed out that in all questions of judicial procedure the element of form was of exceptional importance and for that reason he had raised it on that occasion. He agreed that the German Delegation had been given a hearing on the unsatisfactory execution of the timber deliveries for 1922. It had not, however, been heard on the question whether the unsatisfactory execution of those deliveries constituted a failure by Germany to carry out her Treaty obligations. Whenever in the course of the meetings on the subject Sir John BRADBURY had heard the word "manquement" he had always protested against its use on that occasion.

7. The CHAIRMAN doubted whether any minutes could be discovered in which there appeared the slightest protest against this expression. The deficit had on several occasions been referred to in the Commission; it had been entered on the agenda of the meetings and had been regularly and officially discussed. The CHAIRMAN would have preferred that Sir John BRADBURY had raised this question of form earlier for, had he foreseen it, he would have requested that the German Government should be heard on the deficit as it had been heard on the insufficiency of the deliveries. He doubted, however, whether anyone would be found who thought that in according a hearing to the Germans on these insufficiencies, the Commission had not in fact given a hearing on the default. In these circumstances, the CHAIRMAN requested his colleagues to recognise that the Commission was officially seized on the question.

81. Sir John BRADBURY observed, in order to remove any danger of a misunderstanding, that it was common ground between the Chairman and himself that the latter had frequently referred to the possibility of his having to raise before the Commission the question of a default by Germany. It was also common ground between them that the Chairman was entitled to raise this question. His objection was directed to the Chairman's observation as to the nature of the hearing of the Germans, and he thought that the Commission's records would bear out this objection. The German Government had fully explained the reasons which to their mind prevented the execution of deliveries. As a result of their information and of its own enquiries, the

Commission was in possession of sufficient evidence to pronounce on the German Government's culpability in the matter without its being necessary to hear the Germans again on the question whether the German Government was guilty of a default as contemplated by paragraph 17 of Annex II. He was perfectly ready to address his mind to the question on the formal demand which reached the Commission that day.

9. The CHAIRMAN was pleased to note this agreement for he would have protested had Sir John Bradbury invited the Commission to give a fresh hearing to the German experts. Turning to the substance of the question, the CHAIRMAN recalled the figures. The French order, dated March 31st 1922, included a supply of 55,000 cubic metres of sawn timber which Germany undertook to deliver before Sept. 30th 1922. On November 30th the French Services had received 31,440 cubic Metres, and as accurate a calculation as possible for the period from December 1st to December 15th justified an estimate of 35,000 cubic metres for the total deliveries up to Dec. 15th. In the case of the telegraph poles, Germany should have delivered 200,000 by November 30; the deliveries up to that date amounted to 58,352, or 65,000 by December 15th. These were the facts of the case as shown by definite figures. Without recognising the discussions which had taken place in the S.R.R.K. and the Commission the CHAIRMAN stated definitely that there had been no force majeure to explain or justify the situation. For this reason he appealed to the terms of paragraphs 17 and 18 of Annex II and requested the Commission to note Germany's default.

10. Sir John BRADBURY accepted the Chairman's figures which agreed substantially, if not exactly, with those in his possession. The question, however, arose whether the delay in executing the deliveries of timber in accordance with the orders of the Commission constituted a default as contemplated by paragraph ~~17~~ 17 of Annex II. Germany's obligations to make deliveries in kind during 1922 flowed primarily from the Treaty and the Schedule of Payments, but these obligations had been precisely defined and conditioned by the Commission's decision of March 21st 1922. By that decision Germany was required to make deliveries in kind; "the equivalent in goods of 1,450,000,000 gold marks, of which 950,000,000 shall be delivered to France and 500,000,000 to the other Allies in so far as France or the other Allied Powers, or their respective Nationals, may call for such deliveries under the procedure of the Treaty or any procedure approved by the Reparation Commission." It seemed probable that the figures of 500,000,000 for the deliveries to the Powers other than France would be approximately reached. In any case the question whether or not there was any failure in the deliveries to these Powers was one which could not be determined for some days at least. As regards France, it was quite clear that the deliveries by Germany would not attain the figure of 950,000,000. The obligation upon Germany to deliver goods to the value fixed was not, however, a definite one; she was only required to deliver goods to that value, "in so far as France or the other Allied Powers, or their respective Nationals, may call for such deliveries". The orders for coal and timber placed by France for 1922 amounted to 240,000,000 gold marks: France was further debited with

12,000,000 in respect of rivercraft deliveries and with 1,000,000 in respect of Armistice deliveries; in other words the deliveries to France and the debits against her amounted to 253,000,000 and 607,000,000 were left available for orders primarily intended for the restoration of devastated areas. According to the best information in his possession orders under this latter head had been placed to a value of 42,500,000 gold marks. Of these 42 1/2 millions, 10,000,000 were in respect of work to be done on mercantile shipping in the future, so that the amount likely to be debited against France in respect of 1922 only amounted to 33,000,000. Judged therefore by the orders actually passed by France rather less than 5% of the 600,000,000 available had been ordered. The fact that Sir John BRADBURY wished to bring out was that the fact that the deliveries by Germany fell far short of the amounts fixed in the Commission's decision of March 21st was largely due to the French Government's failure for one reason or another to pass orders. The fact that such small orders had been passed under this heading was not an excuse for, but rather an aggravation of the fact that Germany had not carried out the other orders. Neither the coal nor timber deliveries had in fact reached the figure fixed in the Commission's programmes.

11. Sir John BRADBURY understood, though the documents were not very clear on the point, that the French orders contained in the Commission's order for

11.
cont'd.

timber deliveries dated March 31st, were placed under Annex IV, whilst the British orders were placed under para. 19 (2) of Annex II. In regard to the circumstances under which the Commission's orders were placed, he would point out that they had been placed at a date some time after the termination of the normal felling period for 1922. The preliminary negotiations in respect of these deliveries, however, went back to January 1922, when the German Government made a certain offer of timber during the Cannes Conference. That offer included sleepers, telegraph poles and sawn timber. Negotiations in regard to the latter item were conducted with the British representatives, as France at that time made no demand for sawn timber. When the formal order was transmitted to Germany, it had only proved possible to include a certain quantity of sawn timber for France, without exceeding the limits of the German offer, because Great Britain ceded a certain portion of the sawn timber for which the British representatives had negotiated. It was true that as regards France the formal order had been couched in the form of a mandatory order and not of the acceptance of the German Government's offer. Sight should not, however, be lost of the fact that the Commission's order arose out of a German offer and had been accepted by the German Government in the form in which it ultimately emerged not as an order but with the warning that it might not be possible to execute it in full.

One serious difficulty in the way of Germany's execution of the deliveries was that the specifications in regard to the telegraph poles (the item in which the shortage was most serious) were not deposited until very late, and when deposited, were for particularly large poles and presented considerable difficulties of execution. Sir John BRADBURY had considered with very great care the reasons advanced by the German Government for the shortage in the deliveries and the allegations contained in M. Boris' letter to the S.R.R.K. (Annex 1665 b). He had found that there was a considerable amount of agreement between the German Delegation and the French Government as to the reasons for the delays. Thus M. Boris' letter contained the following statement:

"The French Delegation merely states that, as shown by all the investigations made and, in particular, by the last conversations with the Heads of the Allied Services for Reception, the stagnation of the operations must be attributed mainly to the inadequate prices in paper marks offered to the suppliers by the German Government which realises a considerable profit on the deliveries affected, and must be held absolutely responsible for the non-execution of the tenders."

Thus, according to both statements, the fundamental reason for the shortage in deliveries was the depreciation of the mark with, according to the French Government, the aggravated fact that the German Government had not adjusted its prices, as it should. This question had been discussed very carefully with the German Delegation, and Sir John Bradbury had himself pressed the German representative very hard on the question, since he was anxious that the Commission should be in possession of the real facts as to the extent to which the German Government had tried to cope with the real economic and financial difficulties

resulting from the currency disturbance. He had been anxious to ascertain whether the same difficulties had attended the supplies to the German Government as the supplies for reparation purposes, and whether the German Government had pursued the same policy in regard to its own contractors as that which it had adopted in dealing with the contractors who delivered timber for reparation purposes. The German Delegate had been unable to give the desired information before the Commission, but had promised to do so later, and certain documents had in fact been received which, if they did not entirely clear up the situation, threw some light upon it. They made it quite clear that the German Government had met with some difficulty in obtaining its own supplies and that there had been a considerable shortage on some contracts for the supplies of timber to the German State Railways. The insufficiency, as compared with the contractual amounts, in these contracts was certainly proportionally smaller than in the case of deliveries for reparation orders. It should, however, be noted that the orders for the German Government's requirements had been placed at longer notice and in their case the mechanical difficulties were less. This was a partial but not complete explanation of the difference in the insufficiencies of execution in the two cases.

13. On the other question as to the similarity or the difference between the procedure adopted by the Reichskommissar in the case of reparation deliveries and that adopted by the German Government Departments in the case of deliveries for their own requirements, there was a little further information which threw a very interesting light on the problem. It appeared that the policy

pursued by the German Government Departments had been to increase their contractual prices by comparatively small amounts as soon as the effects of the depreciation of the mark became felt.. It seemed, though the documents supplied by the German Government did not indicate this with absolute clearness, that the Government Departments had begun this process before it was adopted by the Reichskommissar. For a certain time, therefore, the Government Departments were making concessions to their own contractors which the Reichskommissar refused to make to the contractors for reparation deliveries. On the other hand, at a certain date, about the beginning of August, the Reichskommissar made a very large concession to the contractors for reparation deliveries and placed the prices on a gold basis, whilst the Government Departments had only made comparatively small concessions on the paper mark prices.

14. As Sir John BRADBURY understood the position, the Reichskommissar, as judged by the standard of the German Government Departments, was guilty of culpable negligence in so far as he had shown a lack of proper zeal, in failing to take the necessary steps at the proper time to maintain sufficient supplies for reparation deliveries. When he did act, however, he had to some extent made up for his previous shortcomings and had made more extensive concessions than the Government Departments. The measure of the German Government's responsibility for the shortage in deliveries was therefore the culpable negligence of the Reichskommissar in not increasing his prices when they should have been increased. There were however some mitigating circumstances; owing to the currency depreciation, the Government's financial mismanagement and the uncertainty as to the course to be adopted by the Allied Powers and the Reparation Commission (in Sir John Bradbury's opinion the great-

est

element of difficulty, the internal condition of Germany was such as to make the execution of any commercial undertaking very difficult.

15. Assuming a certain degree of culpable negligence on the part of the German Government, what was the proper remedy or sanction to apply? Germany's obligations in respect of deliveries in kind for 1922 were determined by the Commission's letter of March 21st, in which was to be found the following clauses, inserted, Sir John Bradbury believed, at the request of the French Delegate: "If the Reparation Commission finds, in the course of the year 1922, that deliveries in kind called for by France..... within the limits of the figures given above have not been effected by reason of obstruction on the part of the German Government or on the part of its organisations, or by reason of a breach of the procedure of its Treaties, or of the procedure approved by the Reparation Commission, additional equivalent cash payments shall be exacted from Germany at the end of 1922 in replacement of the delivery not effected." To Sir John BRADBURY'S mind the sanction thus provided for took the place of any other procedure which might otherwise have been adopted by the Commission, since *generalia specialibus non derogant*.

16. He did not, however, base his argument exclusively on the decision of March 21st. In the demands for the delivery of timber, conditions were included providing for penalties for a failure to execute deliveries by the due dates. In the original protocol it was stated that the Commission would later fix penalties for the non-delivery by the dates fixed of

telegraph poles and sawn timber. At a later stage, at the request of the French Delegate, the Commission did, in fact, fix penalties for non-delivery of the latter. Throughout the negotiations it had been perfectly clear that the Commission treated timber deliveries as something in the nature of commercial contracts of which time was not the essence. In regard to the sawn timber, justice should now be done on the lines of the penalties fixed by the Commission and the actual shortage in deliveries. The Commission had stated that at some subsequent date it would fix penalties for the non-delivery of telegraph poles, this it should now do. At no stage in the negotiations until October 20th when M. Boris' letter was sent to the S.R.M.K., and never officially until that day, had any suggestion been made that the failure to execute deliveries of timber constituted a voluntary default by Germany in the execution of her obligations under the Treaty.

17.

It had been stated in circles outside the Commission that Germany had consistently and wilfully evaded her obligations under the Treaty of Versailles. It had been alleged that the power given to the Commission from time to time to examine Germany's taxation with a view to seeing that it was at least as heavy as that imposed on any Allied power signatory to the Treaty, meant that the German Government without waiting the result of any examination or demand from the Commission, should impose heavier taxation on its people. It had been said that the failure to take this step constituted a voluntary default in her Treaty obligations.

It had further been stated by the French Prime Minister in a speech in the Senate only two days previously that the terms of Article 248 forbidding Germany to export gold up to May 1st 1921 operated to prevent Germany allowing her nationals to employ paper marks for the purchase of foreign currencies and that the failure to prevent this was a failure to execute that Article. Members of the Commission had heard statements that the Commission, an organisation set up by the Treaty, to judge as fairly as it could having regard to its composition between the Allied Governments and their ex-enemies, had shown undue partiality to the German Government. It had been reproached for having made no report to the Allied Governments such as that now proposed since May, 1921; it was to be given an opportunity to remedy that failure at that meeting.

18. The CHAIRMAN noted that in these circumstances he was at liberty to refer to the statements of the British Prime Ministers and might discuss them in the Commission.
19. Sir John BRADBURY agreed. Certain of the counts which might have been expected had probably from motives of prudence, been eliminated from the indictment. Sir John BRADBURY would have liked to have obtained the opinion of the Legal Service on the counts to which he alluded but the prosecution had relied on certain failures which in view of the volume of the financial obligations under the Treaty were almost microscopic. It might be supposed that the diminution in the charge would have been compensated by its judicial impregnability, but he considered that he had successfully disposed of the indictment from the juridical

point of view. The fact was this trumpery accusation was only before the Commission at the moment as a preparation for an offensive in other fields. Since in the tenth year of the war Troy fell to the strategy of the wooden horse, history recorded no similar use of timber. But the present situation was somewhat different; it was the fifth year of the Peace and the city under attack was not Troy but Essen.

20.

The CHAIRMAN wished first of all to deal with certain statements and certain insinuations made in the course of his speech by Sir John BRADBURY on points which were outside the competence of the Commission. In the first place, as Sir John Bradbury had involved the French Premier in the question by quoting certain of his statements before the Senate, the CHAIRMAN had pointed out that he was thus given the right to adopt the same course in regard to the British Prime Minister. He would not make use of this right, although Sir John Bradbury had recognised it; the Commission must in point of fact not exist in an atmosphere of politics but in an atmosphere of law and jurisprudence. Moreover, by quoting certain passages from the speeches of Mr. Lloyd George and Mr. Bonar Law, he would run the risk of interfering in British politics; it was neither his role nor his intention to do so. M. Poincare, the Head of the French Government, was responsible to the French Parliament and not to the Reparation Commission. The CHAIRMAN had, in the second place, referred to certain insinuations, and it should be quite clear that he did not use this expression in any sense which could offend the British Delegate. Once he had said this however, he must recall Sir John Bradbury's statement that, in demanding that the Commission should take note of the default by Germany, the French Government was preparing to take up a certain position. Sir John Bradbury had subsequently rendered his insinuations very definite by an express reference to Essen. This was a matter for discussion between the Heads of the Government and did not concern the Commission. Politics must remain outside its scope. Sir

John Bradbury had moreover recognised this so clearly that he had been careful, with as much good-humour as wit, to delete the gravity which this phrase might have had by rendering it clear that no more importance should be attached to it than he himself attached.

21. It was within the competence of the Commission to decide whether Germany had been guilty of default within the terms of paragraph 17 of Annex II. The CHAIRMAN would not call Sir John Bradbury's figures in question any more than Sir John Bradbury had called his in question. Between them, however, there was this difference that the figures he had quoted directly concerned the question, whilst those given by Sir John Bradbury, however interesting they might be, only had a distant connection with it. Sir John Bradbury had moreover recognised that France had made very slight use of the right conferred upon her by the decision of March 21, 1922, and that that circumstance, far from lessening Germany's culpability, only aggravated it. The less that was demanded in fact the better right there was to demand a proper delivery of what was demanded. This being the case, by what right were the French orders passed? Sir John Bradbury had expressed the opinion that they were passed under Annex IV, and the CHAIRMAN expressed his agreement and pointed out that Annex IV afforded him stronger arguments than paragraphs 19 and 19 (2) of Annex II, in virtue of which, however, he would have been in a position to maintain the rights of the French Government. Annex IV, in point of fact, gave the Governments the right to demand deliveries in kind and to request the application by the Commission of paragraph 17 when Germany did not carry out her obligations. It was further under Annex IV that the Commission had passed the orders for timber. Germany had

promised to execute them and had not kept her promise. When considering the circumstances of this fact Sir John Bradbury had rightly recalled that in January 1922 whilst making an offer of delivery it entered express reserves as to the possibility of executing it completely. This was true, but it was also true, as the S.R.R.K.'s report showed, that the quantities ordered were far below those requested by the Allied Governments and were, moreover, for a total much less than those proposed by the Germans on January 21st 1921. If the note from the French member of the S.R.R.K. to which Sir John Bradbury had just referred, was short, the reason was that it merely noted incontrovertible facts which emerged from all the reports prepared by the S.R.R.K., and which it was useless further to insist upon.

22.

Sir John Bradbury had laid much stress on the consequence of the depreciation of the mark. The question was whether the German Government could appeal to them as a case of force majeure. The CHAIRMAN would not insist on the reply to that question which was given not by the French Government nor by the French Delegation but by the S.R.R.K. "The S.R.R.K. can merely repeat that the principal cause of the present situation is the fact that the German Government has not itself taken definite action to enable the execution of the necessary felling and to work and deliver the timber to the Allies." In order to draw a comparison Sir John Bradbury had asked the German Delegation to inform the Commission whether there had been delays in the deliveries to the German Government/^{Departments}and, in particular, to the railways of the Reich. The CHAIRMAN did not think that the Commission could give the same value to the reply from the

German Delegation in regard to the railways as Sir John Bradbury. The CHAIRMAN admitted the figure 57% as the coefficient of satisfaction for the railways as he had no means of checking that figure. On the other hand, the coefficient of satisfaction in the case of Belgium was 49% and 54% in the case of Italy if the quantities received in Germany were taken, and fell to 38% in the case of Belgium and 29.5% in the case of Italy if the quantities which had passed the frontier were taken. Sir John Bradbury had, however, made an observation in this connection, the importance of which could escape no one's attention. The point noted in connection with the railways alone did not suffice, as was pointed out in the report from the S.R.R.K., and the German reply was insufficient. It showed a lack of zeal or culpable negligence. Sir John Bradbury had moreover found extenuating circumstances in connection with this negligence, but in all the financial difficulties of Germany even the experts chosen by the German Government itself had noted the insufficiency of the measures taken by that Government in carrying out the unanimous decision of the Commission for the amelioration of the financial situation, and the CHAIRMAN did not think that any extenuating circumstances could efface this clear negligence.

23. Sir John Bradbury, in order that there should be no misunderstanding, pointed out that he had stated that the German Government had only shown culpable negligence in respect of the definite period between the time when the mark began to depreciate and the time when the Reichskommissar placed the prices on a gold basis. He had no exact information but this period only seemed to have lasted a few weeks.
24. The CHAIRMAN had no better information on this point than Sir John Bradbury, for the German Government had shown no particular zeal in giving the Commission information. It was possible that what Sir John Bradbury said was correct; it was none the less true that there had been culpable negligence. They were agreed on the facts and the figures, but Sir John Bradbury interpreted these to mean that there was only a "microscopic" default. This was not the CHAIRMAN'S opinion. Germany had to deliver 55,000 cubic metres of sawn wood by September 30th; she had delivered 35,000 cubic metres three months late. She should have delivered 200,000 telegraph poles, the reception of which should have been completed by November 30th; she had delivered 65,000 by December 15th. There was here a considerable and undeniable difference. Since August 28th the Commission had warned the German Government formally; it had "drawn its serious attention to the absolute necessity" The Commission could not consider this "warning" as of no importance, but Germany had taken no notice of it. The truth of the matter was that she had not been willing to increase her output. This was a

fact to which the embarrassment and hesitation of her representatives bore notice, and had been noted, not by the French Delegation, but by the S.R.R.K.

25.

The Commission now had before it three proposals: a German proposal to extend until April 1st the period for delivery; Sir John Bradbury's proposal to apply certain sanctions which he considered had been defined by the Commission's decision of March 21st 1922; and the CHAIRMAN'S proposal simply to apply the Treaty, of which the Commission was the instrument and which it had the duty to execute. The Commission had already had an experience of what occurred when an extension was granted; in September Germany had promised that all the deliveries of sawn timber would be completed by the end of the year. Moreover, in the case of the 130,000 poles still to be delivered, a delay of three months could not be accorded in view of the difficulties of creosoting in the winter. Finally, the German request would result in nothing less than compromising the execution of the 1923 programme, to which she wished to charge all the deliveries thus adjourned, in order to make a profit for both years. The CHAIRMAN therefore hoped that the Commission had made up its mind on the question of a further adjournment and that it considered this unacceptable. He would next consider Sir John Bradbury's proposal, based on the letter of March 21st 1922, which raised a very simple question of law. According to Sir John Bradbury the particular, in the present case, this letter, was the exception to the general, in other words, the Treaty. Had the Commission been seized spontaneously with Germany's default, the CHAIRMAN might, with certain

reserves, have accepted Sir John Bradbury's hypothesis. But this was not the case; the Commission had before it an official demand from the French Government. In these circumstances, it was impossible for a letter of the Commission to have the effect of cancelling the Treaty. This remained. The orders had been passed in virtue of Annex IV, and the sanctions in case of the non-execution of that Annex were specified in paragraph 17 of Annex II. This was the juridical situation, and the Commission could not reply to the French Government by substituting for the Treaty, which it was requested to apply, the letter of March 21st.

26.

No one would deny that Germany had not made the effort which it was incumbent upon her to make. Did her failure to do so constitute a default? The CHAIRMAN replied most definitely in the affirmative, and invited the Commission to state that Germany was guilty of a default within the meaning of paragraph 17. It would be for the Governments to act on that notification as they considered proper. Were the Commission to refuse to follow the suggestion of the French Delegate, it would ~~not~~ entirely be within its rights. If it noted the default, paragraph 17 authorised it to indicate what in its opinion would be an adequate sanction, without however granting it the right to place any obstacle in the way of any other sanctions which the Governments might decide to apply. The CHAIRMAN, however, would not for the moment deal with that question, which should not be confused with the one to which he had first referred.

27.

Sir John BRADBURY was forced to make two observations as the result of the Chairman's concluding remarks. In the first place the Chairman had treated the Letter of March 21st with comparatively little consideration, as perhaps he was entitled to do, since he was not at that date a member of the Commission. The signatories to that letter could not however treat it in the same way. In the execution of its terms the Commission's good faith as an institution and, in any case, the good faith of its signatories was involved. Any decision amounting to the repudiation of its terms would be inconsistent with Sir John BRADBURY remaining a member of the Commission.

28.

The CHAIRMAN stated that from the moment when he had entered the Commission he had considered himself bound by all the decisions taken before his arrival.

29.

Sir John BRADBURY observed that his second point was perhaps more important. If the Commission declared Germany to be in default within the terms of paragraph 17 of Annex II, though not obliged to do so, the Commission might make certain recommendations as to the action to be taken by the Allied Powers. Whether it made any recommendations or not paragraph 18 defined that action. The Chairman had entered a reserve as to any rights which the French Government might possess under that paragraph, and before the Commission decided to take a note of any default it should consider what rights could thus be reserved. The interpretation of paragraph 18 depended on the Commission

which had received a mandate by the contract of the Allied Powers with Germany to interpret the portion of the Treaty in which it figured. Very grave difficulties had arisen in connection with the interpretation of this paragraph and certain Powers had maintained that the words "And in general such other measures which the respective Governments may determine to be necessary in the circumstances", were to be read absolutely at large as enabling any Allied Power, notwithstanding the definite provision in other portions of the Treaty limiting the extent of the occupied territories, to extend the area of occupation. This was a matter of vital importance for the peace of Europe, which could only be decided by a unanimous decision of the Commission. The Commission could not allow the question to escape out of its control until it had definitely laid down, as it alone could, the proper and authoritative interpretation of that paragraph.

30. Before replying to Sir John Bradbury, the CHAIRMAN asked whether his observations constituted a proposal.

31. Sir John BRADBURY did not yet know what view the Commission would take in regard to the French Government's demand that it should note a default under paragraph 17 of Annex II. Until a decision had been reached on that question, or at any rate until the proposals in their entirety were before the Commission it would be difficult to formulate any proposal.

32.

The CHAIRMAN would not discuss the second question raised by Sir. John Bradbury. If the Commission were obliged to refuse to note the default there would be no object in provoking a particularly delicate debate on the consequences which might be entailed by its decision. He would merely state that his opinion on paragraph 18 was entirely different to that held by Sir John Bradbury.

33.

Sir John BRADBURY had as yet no opinion as to paragraph 18. If any of his colleagues would express an opinion he would be ready to discuss it, but he thought that in general any discussion on juridical questions was undesirable until they were definitely before the Commission.

34.

The CHAIRMAN would merely point out without entering into any discussion that his opinion as to the interpretation of paragraph 18 differed from that of Sir John Bradbury; he considered that this interpretation was not within the competence of the Commission, but he must revert to an observation of Sir John Bradbury's which referred precisely and directly to the decision to be taken. Sir John Bradbury had stated that the CHAIRMAN did not perhaps attach a sufficient importance to the letter of March 21st. The CHAIRMAN had already stated that he attached the greatest importance to all the Commission's decisions. He must add that he had the same right to interpret that letter as his predecessor would have had had he signed it. There were two distinct spheres - that of the governments and that of the Commission. In the present question the Commission had not spontaneously approached the question of the action to be taken in consequence of Germany's deficits; it was the French Government, and the French delegate on its behalf, which had invited the Commission to take note of them. It was, therefore, the Treaty which must apply in this matter and it was the

Treaty which the Commission must consider by itself and not in regard to its consequences. In this connection Sir John Bradbury threatened to resign. What would he have thought if one of his colleagues made the same declaration in advance? When judges were in deliberation it was not usual that one of them should state before the verdict was given that he would hand in his resignation if its verdict was not in accordance with his wishes. It was to his Minister of Justice that the judge would hand in his resignation if he considered proper. In the same way the resignation of a delegate only concerned his government. Sir John Bradbury would certainly recognize his colleague's independence and liberty of judgment and would not raise the question of confidence, relying on the Commission to consider the question by itself, juridically and impartially.

35.

M. DELACROIX wished to express an opinion apart from any consideration of politics or what was opportune at the moment and solely as a judge. Germany had not provided the quantities prescribed and the Treaty to define such deficiencies and delays employed the word "default." The situation in regard to timber was certainly much the most serious, and personally M. DELACROIX had not ceased to call the German government's attention to the gravity of the situation and to the consequences of a deficit. He was by no means convinced that the prices on a sliding scale had any influence in the matter. It would be a serious responsibility for the Allies, but in fact since the month of May the Belgian government had agreed that the prices for its orders should be fixed in French francs and when these were compared with the present prices in gold marks it would be seen that they were fully sufficient. On the other hand, even had there been negligence in the supplies to the railways and German government Departments this would not excuse the most serious negligence in regard to the Commission. The evil arose from the fact that the

35.
continued.

German States which owned large tracts of forests had suffered from what was called flight of the mark and preferred the gold value which the trees represented to the paper marks, the value of which did not cease to decrease. It was to this that was due the lack of good will which they had shown when called upon to begin felling. Proof of this was to be found in the fact that of the 200,000 cubic metres of telegraph poles ordered on the proposals of the German Delegation at Cannes they had only submitted 67,000 cubic metres. At this point M. DELACROIX read a resolution adopted at a meeting at Duisburg. This was all that the S.R.R.K. had always demanded; the customary circumstances justified customary felling which moreover the Germans had never hesitated to carry out in occupied territory. Apart, therefore, from any political considerations, M. DELACROIX would be unable to clear himself before public opinion if in the face of such serious deficits he had not declared Germany in default. There remained the question of the letter of March 21st; he had never dreamt of repudiating his signature, but he wondered whether this decision suggested a modification of the Treaty and the recognition by the Commission of a right inscribed in it. The Commission had frequently provided for certain commercial penalties, but this in no way deprived it of the right it had to recognize a fact and to bring it to the knowledge of the governments, particularly when called upon to do so by one of the governments concerned.

36. Signor d'AMELIO thought that it would be best first of all to confine the discussion to the question of fact and to adjourn till later the question whether the rights of the governments to impose sanctions were to be conciliated with the sanctions provided for in the decision of March 21st. On the question of fact, concerning the insufficiency of the deliveries, it would be possible to reach an agreement. In regard to the second question, it was for the Commission to suggest sanctions to the governments. As a sanction was provided for in the letter of March 21st, Signor D'AMELIO asked whether it should not point this out to the governments, leaving them free to decide whether they were bound by that sanction.

37. Sir John Bradbury would have no objection to deciding that the German government had not carried out the deliveries of timber as prescribed in the Commission's orders. This was a self-evident fact which was already admitted, but a resolution by the Commission to that effect would not carry it one step towards a solution of the problem at issue. It was a possible course, and indeed one which he would advocate personally, to take a resolution to this effect and then proceed to discuss what should be done in the circumstances, but it would not mark any progress towards a solution of the question whether or not there had been a default in the execution of the Treaty of Versailles. He saw little advantage in separating the decision and thought it best that the question should be put quite briefly as to whether or not

there had been a voluntary default. It was necessary to make their intentions clear and to have a simple resolution on which delegates could vote either "aye" or "no." There was one point, however, upon which the Commission should be quite clear: paragraph 17 merely spoke of "a default", paragraph 18 taking up the reference referred to a "voluntary default." He had himself read the word "voluntary" into paragraph 17 also and understood that his colleagues agreed ^{with} ~~that~~ this reading.

38. The CHAIRMAN stated that on this point he entirely agreed with Sir John Bradbury. Like him, he had been struck with the fact that the word "voluntary" was not used in paragraph 17 to qualify the default, and he thought that paragraph 17 must be interpreted like paragraph 18. To bring paragraph 17 into play, the default must be voluntary.

39. M. DELACHOIX shared this opinion, but pointed out that hitherto this interpretation had not been given, when, for instance, the Commission drew attention to the deficit in the case of coal.

40. Signor d'AMELIO expressed his agreement; clearly Germany would not be responsible if the default were not voluntary.

41. The CHAIRMAN had prepared a text, which took into account the observations exchanged concerning the procedure to be adopted for the vote. He put to the vote the following proposal:-

" (1) The Commission notes that Germany has not executed
in their entirety the orders passed under Annex IV
Part VIII of the Treaty of Versailles, for deliveries
of timber to France during 1922."

42. Sir John Bradbury, M. Louis BARTHOU, Signor D'AMELIO
and M. DELACROIX voted in favour of this proposal, which
was in consequence adopted unanimously.

43. The CHAIRMAN then put to the vote the second proposal:
"(2) This non-execution constitutes a default by Germany
in her obligations within the meaning of paragraph 17
of Annex II."

44. M. Louis BARTHOU, Signor d'AMELIO and M. DELACROIX
voted for this proposal. Sir John Bradbury voted against
The proposal was thus adopted by a majority.

45. Signor d'AMELIO proposed to recall to the governments
concerned the terms of the letter of March 21st.

46. The CHAIRMAN, Signor d'AMELIO and M. DELACROIX
voted in favour of this proposal. Sir John Bradbury
abstained from voting, as he was wholly unwilling to
associate himself in any way with the decision just taken.

47. It was in consequence decided by a majority, the
British Delegate abstaining from voting, to recall to the
Governments concerned, that in its letter of March 21st,
fixing the payments to be made by Germany during the
current year, the Commission had made the following
statement :

" If the Reparation Commission finds, in the course of
the year 1922, that deliveries in kind called for by

" France or her nationals or by any other power entitled
" to reparation or its nationals in accordance with the
" procedure laid down by the Treaty or in virtue of a
" procedure approved by the Reparation Commission and
" within the limits of the figures above indicated have
" not been effected by reason of obstruction on the part
" of the German Government or on the part of its
" organisations, or by reason of a breach of the procedure
" of the Treaty, or of a procedure approved by the
" Reparation Commission, additional equivalent cash
" payments shall be exacted from Germany at the end of
" 1922 in replacement of the deliveries not effected."

48.

Sir John BRADBURY observed that there were one or two points on which he would like to reflect. This was the first occasion on which a report of this nature was to be made to the Allied Powers as the result of a decision by a majority.. It was his duty to report his own views to his ~~own~~ Government, but he was not sure, having regard to the Commission's corporate capacity, whether those views ought to be transmitted to the other governments. Annex II laid down that each delegate was responsible only to his ^{own} government, and this would lead him to believe that he was only obliged to report to his own government, which would be entitled to publish this report or not as it ~~plaus~~ thought fit, but in view of the importance of the whole matter the opinions of both the majority and minority might be well reported to all parties, including the German government. He would therefore like time for some further reflection and an opportunity to raise the question at that afternoon's meeting.

49. The Meeting was adjourned at 1.20 p.m. and resumed at 3.30 p.m.
50. Sir JOHN BRADBURY had asked for some time for reflection before making any observations on the decision which had been taken by a majority. Hitherto, in all important matters, and more particularly in the case of the three reports to the Allied powers of a default by Germany in her Treaty obligations, the Commission had been fortunate enough to be unanimous; the fact that a decision had now been taken by a majority created a new situation. Sir John Bradbury accepted the Chairman's suggestion that this decision of the majority represented the finding of the Court, but the opinion of the minority was entitled to such weight as was due to it on its merits. That being so he read the provision of the Treaty that each Delegate was responsible for his own government; alone to mean that when he had made his report to his own government he would have fulfilled his duty. It seemed to him essential that the letter addressed by the Commission to the Allied governments should show that the decision had been reached by a majority and how the majority and minority were constituted; the proposed draft satisfied these requirements and he had no further remarks to make on it. He merely proposed, and he was perhaps taking a liberty in doing so, but his colleagues agreed that the record of proceedings on the Commission's minutes should be as complete as possible, to make a short statement as to the causes which had rendered it impossible for him to associate himself with the decision.
51. To his mind and Commission had had two duties during the last few months; the first was under Article 234.

234 of the Treaty to adjust the burden on the German Reich according to its capacity of payment; the second was in the interest of the Allied Powers to watch over the manner in which the burden was borne and Germany's obligations fulfilled. The performance of the first duty, as his colleagues were well aware, had been surrounded with many difficulties. On August 31st, 1922, in reply to the German government's application for a Moratorium in respect of cash payments, the Commission decided to defer its decision until the Commission had completed its scheme for the radical reform of German public finance, including (a) the balancing of the budget; (b) in the event of the governments represented on the reparation Commission giving their prior consent thereto, the reduction of Germany's foreign obligations in so far as might be considered necessary for the restoration of her credit. In proposing this resolution which was ultimately carried unanimously, M. Delacroix had employed the following language: "A request to that effect (that the Commission should be entrusted with the examination of the general situation in Germany) was moreover addressed to the Allied governments, in the text of the proposal itself, and M. Delacroix was ready to undertake, if their deliberations were not to take place very shortly, to make an official and very clear request at the proper time that the task should be conferred on the Commission of making all enquiries under that head with the necessary powers which Article 234, according to some interpretations, did not afford it. Thus the Delegates would have laboured not only in the interests of the Commission itself, but also in those of the economic res-

toration of the world." At that date the £ sterling was worth 7,000 marks.

52.

For certain reasons no proposal for any modification in Germany's obligations was submitted until October 4th when Sir John Bradbury himself submitted a plan. At that date the £ sterling was worth 9,500 marks. That plan did not commend itself to his colleagues, and 14 days later the French Delegate submitted another scheme, when the £ sterling was worth 12,600 marks. In this latter plan an objection was raised to anything in the nature of a moratorium unaccompanied by securities, and the observation was made that it was impossible to say how far Germany's burdens could be adjusted without considering how far the Allies were in a position to bear the burdens represented by their mutual indebtedness. It was therefore considered better that the request should not be dealt with until the question had been discussed by the Allied Powers. The words employed were the following "The Reparation Commission would desire to do nothing which might interfere with the work of this conference, delay its opening, or compromise its success." Sir John Bradbury had acquiesced in this view although he had always been strongly of the opinion that the duty of adjusting Germany's burden to her capacity to make payment was incumbent upon the Commission and should be borne by the Commission itself.

53. Whilst the Commission's duties under Article 234 were thus in suspense, it was very difficult for it to carry out its other duty of watching over the manner in which Germany carried out her obligations. The situation in Germany was generally recognised not only by every member of the Commission but by many Allied statesmen as very serious, so serious indeed, that the performance of any of her duties under the Treaty became a matter of great difficulty if not almost impossible. For instance, Sir John BRADBURY believed, though he spoke subject to correction, that the value in German currency of the coal deliveries specified in the Commission's programme was greater than the whole revenue of the Reich.

54. The CHAIRMAN would not embark upon any discussion of this point, but he reserved the right of demonstrating later that if Germany were willing to employ in the payment of reparation the revenues of all the States which went to make up the Reich, she would be in a position to bear the burden of reparations easily.

55. Sir John BRADBURY pointed out that he was merely giving an illustration of the present situation. It was true that there were other German States besides the Reich but he thought it was none the less a fact that the value of the coal deliveries demanded exceeded the total revenues of the Central German Government.

56. An American observer had said that for the moment Germany was like a machine, the motive power of which had disappeared but which continued to run on its momentum. It was a matter only of months or even weeks before the machine stopped. This view might be right or wrong, but, in view of the present situation in Germany, it appeared to Sir JOHN BRADBURY as approaching an absurdity for the Commission to take a decision in regard to Germany's performance of certain particular obligations without regard to the general situation and the very important interallied conference which was shortly to take place. He was, moreover, not sure that such a decision by the Commission satisfied the conditions laid down in the French Delegate's memorandum. It could not delay the opening of the Interallied Conference as it had already been opened in London; he only wished that he could hope it would not compromise the success of that Conference.

57. The CHAIRMAN observed that the decision was now taken and while Sir John Bradbury might have considered it regrettable before it was taken, he had said that he would bow before the opinion of his colleagues.

58. The CHAIRMAN proposed that the Commission should consider the draft of the letter to the Powers concerned,

prepared by the General Secretariat.

59. Sir John BRADBURY did not wish to criticise a letter to which he was not a party, but he considered it might be desirable to state that the default notified to the Powers was voluntary. The point would be met if the Commission took a formal interpretation on paragraph 17.
60. The Commission proceeded to a formal interpretation of the Treaty on this point. (See question 2306a below).
61. The GENERAL SECRETARY asked to which Powers the letter should be addressed. On the three previous occasions on which Germany had been reported in default under the Treaty of Versailles, the Commission had not always adopted the same course. On the occasion of the notification of a default in coal deliveries, a letter was addressed to Great Britain, France, Italy and Belgium. On the occasion of the notification of Germany's default in respect of gold payments in May 1921, notification was sent to the Governments of all the Powers that had a right to reparation. When the Commission discussed the question of the notification of a default by Hungary the question had arisen whether this notification should be addressed to the principal Powers or to those which ought to have received the deliveries which were in arrears. It had in effect been decided that the default should be notified to all the Powers represented on the Commission when it dealt with Hungarian affairs.

62. It was decided on the present occasion to understand by the phrase "interested Powers" in paragraph 17 of Annex II, Great Britain, France, Italy and Belgium. A copy of the letter addressed to these four Governments would be despatched to the Government of the United States of America.
63. The GENERAL SECRETARY enquired whether the German Government should be notified and, if so, whether it was to receive a copy of a letter addressed to the Allied Powers or whether a special letter should be drafted for the purpose.
64. Sir John BRADBURY pointed out that there was no obligation upon the Commission to notify the German Government but on all previous similar occasions, both under the Treaty of Versailles and that of Trianon, a notification had been sent to the peccant Government. This course had obvious advantages, since the object of the notification was the transfer of responsibility in the matter from the Commission to the Allied Powers. As the Commission had disinterested itself in the matter the German Government ought to know to whom it should make any representation. As to the disadvantage of letting Germany know that the decision had been taken by a majority, he pointed out that it would in any case be impossible to keep this fact secret for 24 hours.
65. The CHAIRMAN thought that it was for the Allied Governments to make this communication to the German Government, and that the Commission was not bound to assume

responsibility which did not belong to it. He put to the vote this question of the communication to the German Government.

66. Sir John Bradbury voted in favor of this communication. M. Louis Barthou, Signor d'AMELIO and M. DELACROIX voted against.

67. M. DELACROIX thought that it should be left to the General Secretariat by way of courtesy to make a verbal communication to the German Delegation.

2306a FORMAL INTERPRETATION OF PARAGRAPH 17 of ANNEX II

1. The Reparation Commission in the exercise of its powers of interpretation under paragraph 12 of Annex II Part VIII of the Treaty of Versailles, decided that the word "default" in paragraph 17 of the said Annex had the same meaning as the expression "voluntary default" in paragraph 18 of the same Annex.

2. Sir John Bradbury, M. Louis Barthou, Signor d'AMELIO and M. Delacroix voted in favor of this interpretation.

2307. AMENDMENTS TO BELGIAN-GERMAN CONTRACT
AGREEMENTS. (1605,h.1.)

1. M. DELACROIX had, since the last meeting, had a conversation with Sir John Bradbury and had communicated to him certain figures which tended to show that his interpretation could only cause a relatively small difference, amounting at most to a million and a quarter marks gold. Since then, the last figures which M. DELACROIX had received showed that this difference no longer existed or was at any rate hypothetical. He therefore requested Sir John Bradbury to accept the simple interpretation of the arrangement.
2. Sir John BRADBURY observed that if the figures were such as to agree with the principle which he had laid down his difficulty would disappear. He would have no objection to approving the agreement with the proviso that its effect should not be to allow Belgium to escape a debit for the current year in respect of any ordinary reparation deliveries.
3. M. DELACROIX asked that the Belgian Delegation should be credited in case any further slight difference existed, taking into account the fact that it alone had negotiated an agreement of this nature at the request of the Commission.
4. The CHAIRMAN put to the vote the adoption of the Belgian-German Contract agreements.
5. M. LOUIS BARTHOUSSE, Signor d'AMELIO and M. DELACROIX voted for the adoption. Sir John Bradbury voted against.

6. It was decided by a majority to approve, for 1922 only, the new arrangement between the Belgian and German Governments in regard to the Belgian Contract agreements contained in Annex 1605, as a special exception to Decisions 1927 and 2071.

7. The question raised by this arrangement would be re-examined when the arrangements for the deliveries in kind during 1923 had been made.

2308. DEMANDS BY FRANCE AND ITALY FOR DELIVERIES OF SUGAR UNDER PARAGRAPH 19 (2) OF ANNEX II.

The question was adjourned for a fortnight.

2309. AGREEMENT BETWEEN THE FRENCH AND GERMAN GOVERNMENTS (ANNEX 1129) FOR COMPENSATION OF FRENCH LOSSES IN RIVER CRAFT (PARAGRAPH 6, ANNEX III, PART VIII OF THE TREATY OF VERSAILLES) (ANNEX 1679, a, b, c)

The draft letter to the Kriegsaastenkommission (Annex 1679c) was approved.

2310. AMENDMENT TO THE TEXT OF BONDS OF SERIES B and C PROVIDED FOR IN THE SCHEDULE OF PAYMENTS (ANNEX 1265 j.k.l.m.(1) and (11)).

1. Sir John BRADBURY still entertained some misgiving in regard to the text of the bonds. It had ultimately been decided that there was no claim against the German Government in respect of these Bonds or the interest-bearing coupons, except through the Reparation Annuities. Therefore while it was, in a sense, true that the Bonds represented a charge on all the revenues and assets of Germany, they in fact

only represented a charge against that portion of the assets and revenues assigned as a guarantee under the Schedule of Payments. As these documents purported to be negotiable instruments, any holder should not obtain the impression that he had larger remedies than was in fact the case. Sir John BRADBURY had made this criticism himself, after seeing the text prepared by the Legal Service and the Finance Service. Once having submitted a report, the Services felt some delicacy in re-opening the question, but Sir John BRADBURY considered that it would be quite possible to refer the question back for the further examination which seemed to him necessary.

2. It was decided that the British Delegate would submit the draft of a further modification to the Finance Service through the intermediary of the British Member of the Managing Board.
3. The Finance Service would prepare a report which would be placed on the agenda of the Commission.

2311. COAL AND COKE SUPPLIES TO AUSTRIA. (ANNEX 1659 a.b.c.d.)

1. The GENERAL SECRETARY enquired whether the Commission wished to deal with this question under the Treaty of Versailles or that of St. Germain. He would have imagined that there was no doubt that it fell under the former Treaty but it had already passed through the Austrian Section.
2. Sir John BRADBURY did not think there was any inconsistency in the reference of the question to the Austrian

Section and its settlement under the Treaty of Versailles. The question affected the general economy of Austria and the opinion of the Austrian Section was useful, but the only point at issue was a demand for German coal, which must be dealt with under the Treaty of Versailles.

3. The draft reply (Annex 1659 d) was adopted subject to the Serb-Croat-Slovene Delegate's approval.
4. The Meeting rose at 5.20 p.m.