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POLITICS AND ECONOMICS OF PAYMENTS

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The corporation is constituted for the purpose of educating the people of all nations to a full knowledge of the waste and destructiveness of war, its evil effects on present social conditions and on the well-being of future generations, and to promote international justice and the brotherhood of man; and, generally, by every practical means to promote peace and good will among all mankind.—*By-laws of the Corporation.*

It is to this patient and thorough work of education, through the school, the college, the church, the press, the pamphlet and the book, that the World Peace Foundation addresses itself.—Edwin Ginn.

The idea of force can not at once be eradicated. It is useless to believe that the nations can be persuaded to disband their present armies and dismantle their present navies, trusting in each other or in the Hague Tribunal to settle any possible differences between them, unless, first, some substitute for the existing forces is provided and demonstrated by experience to be adequate to protect the rights, dignity and territory of the respective nations. My own belief is that the idea which underlies the movement for the Hague Court can be developed so that the nations can be persuaded each to contribute a small percentage of their military forces at sea and on land to form an *International Guard or Police Force.*—Edwin Ginn.

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IV. DETERMINATION OF THE OBLIGATION

In the two preceding chapters the debt and the payments on it have been discussed. The debt was not determined at the beginning, and in fact is not finally determined even now. It therefore offers a double point of view for study, the amount of it based upon damage done and the amount of it as agreed upon between the parties. The first point of view has already been set forth in detail by the citation and orderly arrangement of official figures. The second point of view has not been based exclusively upon such physical appraisals. It has developed a political rather than an economic history. Until March, 1921, the creditor states sought to fix the whole obligation in meetings of their Supreme Council, notwithstanding that the treaty clearly assigned that duty to the Reparation Commission by Art. 233. The treaty provided that the obligation should be fixed by May 1, 1921, and at the eleventh hour the creditors, having failed to reach a political agreement, remitted to the commission the duty which belonged to it. Hampered by shortness of time and incompleteness of facts, the commission fixed the total sum at 132,000,000,000 gold marks for all debtors. While the commission was at work, Germany sought repeatedly the independent intervention of the United States, which was avoided by the newly inaugurated Harding Administration.

The Schedule of Payments of May 5, 1921, remains the measure of the obligation of the debtors, which can not be reduced except by decision of the creditor states themselves. Its history is essentially political and the salient phases of it must be examined before a closer look is taken at the way reparation has operated in practice.

1. SUPREME COUNCIL'S EFFORTS TO FIX A FIGURE

The effort to determine the amount of reparation to be paid by Germany began while the victorious powers were formulating the terms of the conditions of peace, which were handed to the Germans on May 7, 1919. In the comments by the German Delegation thereon the first attempt between the parties was made to fix the limit. Germany's proposal at that time was in substance as follows:

Germany is ready, within four weeks after the ratification of the treaty, to issue government bonds for 20,000,000,000 gold marks, payable not later than May 1, 1926, in instalments to be stipulated by the Allied and Associated Powers, and for the remainder of the total indemnity to draw up the required deeds in the same manner and to pay them in yearly instalments without interest, beginning May 1, 1927, with the understanding that the total compensation shall on no account exceed the sum of 100,000,000,000 gold marks, including both the discharges to Belgium for the amounts advanced to her by the Allied and Associated Powers, and the above-mentioned 20,000,000,000 gold marks.¹

In reply the Allies stated on June 16:

The Allied and Associated Powers have to remark that in the Observations submitted the German Delegation has made no definite offer at all, but only vague expressions of willingness to do something undefined. A sum of 100,000,000,000 marks (gold) is, indeed, mentioned and this is calculated to give the impression of an extensive offer, which, upon examination, it proves not to be. No interest is to be paid at all. It is evident that, till 1927, there is no substantial payment, but only the surrender of military material and the devolution upon other powers of large portions of Germany's own debt. Thereafter a series of undefined instalments is to be agreed, which are not to be completed for nearly half a century. The present value of this distant prospect is small, but is all that Germany tenders to the victims of her aggression in satisfaction for their past sufferings and their permanent burdens.

The amount was not fixed by the treaty, which provided for the issuance of 120,000,000,000 marks gold bearer bonds. By Art. 235 of the treaty, 20,000,000,000 gold marks were to be devoted to enabling "the Allied and Associated Powers to proceed at once to the restoration of their industrial and economic life, pending full determination of their claims." That amount was to be liquidated by May 1, 1921. By Annex II, par. 12(c) 1, 20,000,000,000 marks gold bearer bonds were to be issued without interest, payable May 1, 1921.²

¹Comments by the German Delegation on the Conditions of Peace, *International Conciliation*, October, 1919, No. 143, pp. 67, 115.

²"The bonds in Art. 235 in no way can be confused with those representing the amount of the first issue of bonds referred to in par. 12 of Annex II. The 20 billion marks in bonds in Annex II are simply an acknowledgment of debt to be deducted from the reparation general account. The 20 billion gold marks of Art. 235 must be paid in cash, securities or the equivalent." (Note of the Reparation Commission, March 24, 1921.)

By Annex II, par. 12(c)2, 40,000,000,000 marks gold bearer bonds were to be issued forthwith bearing interest at $2\frac{1}{2}\%$ till 1926, and thereafter at 5% , and further, an undertaking to deliver 40,000,000,000 marks gold 5% bearer bonds when, but not until the commission is satisfied that Germany can meet the interest and sinking fund. "Further issues by way of acknowledgment and security may be required as the commission subsequently determines from time to time." The exact amount Germany shall pay is not yet settled, but it is well to review the efforts to fix an amount.

The bonds provided by the treaty were not intended to represent all of the payments Germany was obligated to make. The total cost of the armies of occupation during the armistice and treaty periods are a first charge on the German payments by Art. 251. By Art. 232 Germany undertakes an additional obligation "as a consequence of the violation of the treaty of 1839 to make reimbursement of all sums which Belgium has borrowed from the Allied and Associated Governments up to November 11, 1918" plus interest at 5% . The amount has been fixed at 2,500,000,000 gold marks and a special issue of bearer bonds is provided for to cover the obligation.¹ These charges—the occupation costs ran at the rate of 1,440,000,000 gold marks per year for the first 30 months—affect the obligations at the beginning.

French Policy Defined

The 20,000,000,000 marks was inserted in the treaty to enable immediate payments to be credited before the obligation was fixed. France, driven by the pressure of reconstruction, was very eager to get reparation in hand, to take military insurance that Germany would not come back, and to get as large a share of reparation payments for herself as possible. The division of

¹It is stipulated that "this amount shall be determined by the Reparation Commission and the German Government undertakes thereupon forthwith to make a special issue of bearer bonds to an equivalent amount payable in marks gold." Under a modification of Annex II, 13 (f), the Reparation Commission provided for arbitration of points unanimously submitted. The commission, in virtue of this provision, assigned to Roland W. Boyden, the American unofficial member of the commission, the task of determining how the sums borrowed by Belgium and the interest should be converted into marks. Mr. Boyden's decision was rendered on October 1 and prescribed that the average rate of exchange from November 9 to 11, 1918, should apply. (*Le Temps*, October 1, 2, 1921.)

reparation was strictly up to the politicians who foregathered every few weeks acting under the name of the Supreme Council. The military insurance, which from the reparation point of view affects the amounts assignable to the armies of occupation, has a history all its own. The French Government thought that reparation would be speedier if the sum total of German obligation was fixed first, before the damages had been assessed. The Clemenceau cabinet, which negotiated the treaty on the part of France, gave form to all these ideas; but its policy has not been pursued by subsequent ministries in a manner satisfactory to its proponents. A group of whom Clemenceau, Poincaré, the war President, André Tardieu and others are representative has opposed every ministry since Clemenceau's fall on January 17, 1920. He was succeeded as premier by Alexandre Millerand, who shortly began negotiating for the definite fixation of the reparation amount. This policy was continued in its broad lines by the successive ministries appointed by Millerand as President of the Republic, up to Poincaré.

Millerand as premier went to England in May, 1920, to confer respecting reparation. At that time a memorandum stating the French attitude was officially issued to the press.¹ From it an understanding of the conflicting French points of view may be had:

The subject of the negotiations will be, primarily, the question of reparation. It is known that in 1919 Messrs. Klotz and Clemenceau were resolutely opposed to any fixing of the figure of the German indemnity. They declared that such a definition was impossible because of the uncertainty of prices, our ignorance of the exact extent of the damages and our inability to estimate the ability of Germany to pay in view of the troubled conditions through which she was passing.

However justified these arguments are they were above all ingenious pretexts; in reality it was courage which was lacking in Klotz and Clemenceau to admit that a considerable part of the destruction caused by Germany must be met by France. They withdrew from fear of the consequences of disillusionment. Courageously M. Millerand has decided to accept a definite figure of the German debt and an estimate which will permit, on one hand, the utilization of this credit by France, and further, an understanding between the Allies on the financial policy to adopt toward Germany. There were certain difficulties in bringing Poincaré (now chairman of the Reparation Commission) to this point of view. He for various reasons was at first very hostile.

¹*Public Ledger news service, May 8, 1921.*

In 1919 the American experts talked of 100 and then of 150 billion marks. It is around these figures that the discussion centers. As to the methods of payment, two principal systems stand out: one, forfeiture, pure and simple, which consists in determining the total and then in distributing it over a certain number of annual payments of a definite figure; the second, a combination of forfeiture and of indefinite payment, where a minimum would be fixed which would be paid each year and to which there would be added a sum corresponding to the increase in the financial capacity of Germany. The minimum could be immediately utilized and the eventual supplement make it possible to take into account the increase in German prosperity on the one hand and on the other to leave to the French the illusion that they are to receive much more. It is said this second system is the one preferred by M. Poincaré.

Supreme Council Overshadows Commission

The question was discussed at Hythe, England, on May 15-16, 1920, a month after it had been decided at San Remo that the Germans should be given an opportunity to meet their opponents in a conference. The Hythe meeting between the French and the British premiers was intended to prepare for combating German arguments at the forthcoming Spa conference. The actual decision was the setting up of a governmental commission of experts to gauge the capacity of Germany to pay, a task assigned by the treaty to the Reparation Commission. The French experts at the meeting proposed an international loan by Germany. Inasmuch as the bills for damages were not made up until February, 1921, it is difficult to see how a loan at that time could have been seriously considered by investors.

Raymond Poincaré was at that time the French member of the Reparation Commission. When he learned that the Supreme Council was starting to fix the German liability, he resigned in these words:

The conversations which have just taken place between the heads of the British and French Governments seem to me bound to result in relieving the Reparation Commission of the most difficult part of its task. I do not think, under these conditions, that my presence as head of the French delegation can henceforth be of much use.

At Boulogne in June the Supreme Council met again to concert ways and means to hold a solid front against the Germans when

the Spa conference began. The premiers tentatively agreed upon demanding 269,000,000,000 gold marks from Germany. The details were not worked out. The communiqué does not mention this sum, but does say some interesting things:

The question of the German payment for reparation and its distribution between the Allies was again discussed. It was agreed that the experts of France, Great Britain, Italy, Belgium and Serbia should meet in Paris to draw up a joint proposition on an agreed basis for submission to the allied conference which will meet at Brussels on July 2 in order to agree upon a joint policy before the Spa conference.

Germany Secures a Hearing

The protocol supplementary to the treaty of Versailles provides:

From the signature of the treaty and within the ensuing four months Germany will be entitled to submit for examination by the Allied and Associated Powers documents and proposals in order to expedite the work connected with reparation, and thus to shorten the investigation and to accelerate the decisions.

The first postwar meeting of the Germans and their adversaries was held at Spa, Belgium, July 5-17, 1920. On May 8 the German commissioner at Paris, Dr. Göppert, announced that, in virtue of the protocol, "the German Government intended to express an opinion within the appointed period, which expires on the 10th of this month, concerning the settlement of the claims for reparation made by the Allied and Associated Governments. In the meantime, in their note of April 26 of this year,¹ the allied Governments have expressed the opinion that questions connected with the execution of the treaty of peace could be more easily settled by an exchange of opinion between the heads of Governments than by an interchange of written notes. The German Government therefore believes that it is acting in agreement with the intentions of the allied Governments when it intends to bring these questions up for discussion at the proposed negotiations at Spa."² Observations on the problem were transmitted on July 1, as follows:

The treaty of peace imposes on Germany immense deliveries to foreign

¹Notifying the decisions of the San Remo meeting of the allied premiers (Supreme Council), April 18-25, 1920.

²Protocols and Correspondence, No. 125.

countries. At the same time the German Reich is deprived by the treaty of peace of considerable sources from which former payments to foreign countries could be effected. Deliveries to foreign countries without return deliveries are only possible when so many goods for export are available that not only the imports required for the life of the inhabitants of Germany, but also the payments under the treaty of peace, can be covered from exports. Further, however, it is an essential condition in the case of all deliveries without return deliveries that they can be paid from the revenue of the German Reich. For even the goods which can be handed over on the reparation account are not directly at the disposal of the German Reich; on the contrary, they are only obtainable from the producers in return for payment, and they can only be thus acquired when the requisite sums of money can be raised from the German people by taxation. These questions are discussed in more detail in the appended memorandum concerning Germany's capacity to pay for reparation. In order to give a basis for judging how far Germany has already strained her sources of taxation, a further memorandum is submitted concerning the burden of taxation borne by Germany.

The German Government considered it necessary to send in these representations, which depict the real state of affairs without extenuation or exaggeration, before the Spa conference. It is still aware of its obligation to effect the reparation provided for in the treaty of peace by every means in its power, but it also considers it its duty unreservedly to set forth the difficulties by which it is faced in so doing; for the question as to what deliveries Germany is now in a position to make and what deliveries she will be capable of making in future can only be settled when those taking part in the conference are absolutely clear as to the present state of economic conditions, the burden of taxation and the financial powers of the Reich.¹

Simultaneously there was forwarded a memorandum embodying the opinions of German experts on Germany's capacity to pay. Reduction of the coal demands was urged and eventually accepted. It demanded that deliveries be effected on the basis of export prices, that deliveries in kind be at the world price, recalled offers already made of German labor for the French devastated regions, and urged the necessity of foreign credits. Conditions under which Germany was capable of paying her debt and to the acceptance of which she must "subordinate the submission of a new offer," were the following:²

¹Protocols and Correspondence, No. 175.

²Protocols and Correspondence, No. 176, inclosure.

The realization of economic peace; the financial and economic recovery of Germany is impossible so long as she is exposed at any moment to the danger of a renewal of the blockade, or of financial and military reprisals.

The establishment of the economic unity of Germany by the constitution of an uninterrupted customs barrier around her territory. The suppression of the advantages granted for the exportation in Germany to Alsace-Lorraine, Luxemburg and Poland.

The settlement of communications with East Prussia.

The maintenance of Upper Silesia "within the German economic system."

The preservation of Upper Silesia is the indispensable condition of the execution of the treaty. "If our adversaries really want to be indemnified for the losses which they have suffered in consequence of the war, they can not neglect this fact of capital importance."

The necessity of leaving to Germany a sufficient commercial fleet to guarantee her supply of foodstuffs and raw materials. "The 350,000 tons demanded in London only represent half the tonnage necessary for her needs."

Distribution of Reparation

The general decisions of the Spa Conference were embodied in an agreement signed July 16, of which several articles retain their validity. The determination of the portions of reparation to be received by each country was the most important item:

ARTICLE 1. In pursuance of Art. 237 of the treaty of Versailles, sums received from Germany under the head of reparation shall be divided in the following proportions:

	<i>Per cent.</i>
British Empire	22
France	52
Italy	10
Japan75
Belgium	8
Portugal75

6.5 per cent. shall be reserved for Greece, Rumania, the Serb-Croat-Slovene State, and for the other powers entitled to reparation which are not signatories of this agreement.

ART. 2. The aggregate amount received under the head of reparation from Austria, Bulgaria and Hungary, together with the sums received from Italy, the Czecho-Slovak State, Rumania and the Serb-Croat-Slovene State under the agreements made on September 10 and December 8, 1919, shall be divided as follows:

(a) One-half shall be divided between the allied Government mentioned in Art. 1, in the proportion fixed by the said article.

(b) Of the other half, Italy shall receive 40%, and 60% is reserved for Greece, Rumania, the Serb-Croat-Slovene State and for other powers entitled to reparation which are not signatories of this agreement.

ART. 3. The allied Governments recognize that it is in the general interest to determine the total amount due by Germany under Arts. 231 and 232 of the treaty of Versailles, and to make provision for the method of payment on the basis of an agreement embodying:

- (1) The fixing of annuities to be paid by Germany;
- (2) The faculty for her to free herself at an earlier date by discounting some or all of these annuities;
- (3) The issue by Germany of loans destined for the internal requirements of the country and the prompt discharge of its debt to the allied powers.

The allied Governments declare their readiness to take among themselves such measures as they may deem appropriate to facilitate an agreement of this kind.

ART. 4. (1) For each of the allied powers the Reparation Commission will draw up, as on May 1, 1921, a statement in the following form:

MAY 1, 1921

<i>Creditor</i>	<i>Debtor</i>
(a) Cost to May 1, 1921, of armies of occupation.	(d) Receipts on account of armies of occupation.
(b) Sums advanced to Belgium before November 11, 1918, with interest to May 1, 1921.	(e) Value of deliveries in kind up to May 1, 1921, excluding restitutions under Art. 238 of the treaty of Versailles.
(c) Present value of share in reparation.	(f) Receipts to be credited to Germany under Art. 243 of the said treaty excluding final balances under Sections III and IV of Part X (Economic Clauses), and sums applied in accordance with Art. 5(a) of this agreement below toward the satisfaction of the Belgian priority. . . .

Procedure Referred to Experts

An agreement concerning the procedure to be followed with regard to reparation was reached on November 12, 1920, between the French and British Governments when M. Leygues, the French premier, notified the British ambassador of four points previously arrived at: First, a Brussels conference of experts; second, a meet-

ing between representatives of the Allies and the German Government; third, consideration by the Reparation Commission of the findings of the first two conferences, and, fourth, a meeting of the premiers to consider the decisions of the Reparation Commission.

The conference of the allied ministers was to be held after the plebiscite in Upper Silesia.

The conference of experts took place at Brussels December 15-22, 1920, and reconvened on January 10, 1921, for another session. After a day of theoretical discussion, Herr Bergmann, German financial secretary, expounded the views of his Government. He declared that it was first of all necessary to distinguish clearly between reparation in kind and reparation in money. His Government was inclined to do more in the way of reparation in kind. He estimated that already cattle, material of war, and ships to the value of 20,000,000,000 gold marks (£1,000,000,000) had been restored. Germany could not accept the French view that certain industries working for the Allies should be supervised. This system would lead to strikes and other troubles. Herr Bergmann believed that an international loan to help Germany to help herself would facilitate the work of reparation, and dwelt on the difficulties which Germany would meet with in paying in money so long as the financial situation and the course of the mark were not improved.

Herr Bergmann sketched in broad outline a plan for allowing Germany to pay in kind—by means of materials, products of her factories, and such like. It would be necessary to fix the number of years during which this kind of payment would be made, the minimum of these deliveries, and after the fixed period had elapsed the maximum amount of the yearly deliveries after taking into account the situation of Germany. An inquiry would be made as to what that country could pay in kind and in specie. It would seem that the experts agreed on the principle put forward by the German delegation, but the question of method and the facts as to her capacity to pay were much in doubt.¹

The conference, which was attended by members of the Reparation Commission, early developed a general plan of payment which, though never adopted, had a considerable effect upon

¹London Times, December 18, 1920.

subsequent plans. This proposal was that there should be an annual payment of 3,000,000,000 gold marks by Germany for a period of 42 years from May, 1921. An additional yearly payment of 3,000,000,000 gold marks should be made from 1926-27 to 1930-31, to be 4,000,000,000 gold marks for the following 32 years. Provision was made for discounting advance payments up to 8%. It was also proposed that Germany should attempt to raise a loan for which she might, with the consent of the Reparation Commission, assign the resources of the Government and the federal states. One guaranty proposed was that German industrial securities up to 5,000,000,000 gold marks be deposited with the Reparation Commission.

The conference spent most of its time in a technical examination of Germany's sources of wealth and taxable capacity and her general financial and economic condition. It was apparently agreed among the Allies that a limit had been reached in direct taxation in Germany, but there were many questions of taxation on which information was unsatisfactory. The tendency was to find increased funds from the customs and excise rather than from levies on capital, which would have the treble disadvantage of being nonrecurring, driving capital abroad, and of starving production. In another direction, many questions were raised as to export and import trade; and a further line of investigation lay in the direction of state employes whose salary demands had resulted in an increase of 20,000,000,000 marks paper in the current budget. The Allies undertook an examination of allied occupation costs and commissions, where the allied administrations had been "spending what they liked on account of Germany as payee." To bring out the requisite conditions 41 questions were prepared for Germany to answer when the conference reconvened. "On the whole," said the *London Times* on January 22, 1921, "the reply is considered satisfactory by the allied representatives."

Supreme Council Propounds Terms

January 25-29, 1921, the Supreme Council met at Paris. At the outset it was faced by French objection to a fixed sum. One argument was that a definite amount would imply reduction of the French claim—a very interesting contention in view of the fact that the Reparation Commission did not announce the amount

of the unrevised claim until nearly a month later. The second argument was that it was then impossible to determine German capacity to pay. A third point might have been that the claims of the allied powers had not been determined—that the bill was not made out; but that argument was not brought forward. M. Doumer, the French minister of finance, argued that the French claim was 112,000,000,000 marks gold; that the French share was 52% of the total, and that therefore the reparation amount should be fixed at 215,000,000,000 marks gold, or some 400,000,000,000 with the interest. Asked how Germany was to pay this amount, M. Doumer said that prewar Germany had exports worth 10,000,000,000 marks gold, worth to-day 17,000,000,000. Germany was to turn over 12 billions annually, retaining 5 for herself. "Germany has that within her borders to pay, but how to get it?" commented Premier Lloyd George. "Germany can not export her mines and railroads to us. Then again, suppose we take the railroads, and run them, doubling the tariffs, we only get a lot of paper marks which are practically valueless after we get them home. The only way Germany can pay is by exports. By that I mean the difference between exports and imports. If her imports are limited by taking too much of her exports, she will be unable to get food and raw material." On the intervention of President Millerand the negotiations reverted to the basis of the Boulogne plan, resulting in the following "agreement" of the creditor states:

ARTICLE 1. For the purpose of satisfying the obligations imposed upon her by Arts. 231 and 232 of the treaty of Versailles Germany shall, irrespective of the restitutions she is to make under Art. 238 and of any other obligation under the treaty, pay:

- (1) Fixed annuities, payable half-yearly in equal parts, as follows:
 - (a) two annuities of two milliards of gold marks from May 1, 1921, to May 1, 1923;
 - (b) three annuities of three milliards of gold marks from May 1, 1923, to May 1, 1926;
 - (c) three annuities of four milliards of gold marks from May 1, 1926, to May 1, 1929;
 - (d) three annuities of five milliards of gold marks from May 1, 1929, to May 1, 1932;
 - (e) thirty-one annuities of six milliards of gold marks from May 1, 1932, to May 1, 1963.¹

¹The treaty of Versailles provides in Art. 238 that the entire obligation is to be

(2) Forty-two annuities running from May 1, 1921, equal in amount to 12% ad valorem of the German exports levied on the proceeds thereof and payable in gold two months after the close of each half year.

In order to insure the complete fulfilment of paragraph (2) above, Germany will give to the Reparation Commission every facility for verifying the amount of the German exports and for establishing the supervision necessary for this purpose.

ART. 2. The German Government will transmit forthwith to the Reparation Commission notes to bearer payable at the dates specified in Art. 1, par. 1, of the present arrangement; the amount of these notes shall be equivalent to each of the half yearly sums payable under the said paragraph.

Instructions shall be given to the Reparation Commission with a view to facilitating the realization by powers which so demand of the share to be attributed to them in accordance with the agreements in force between them.

ART. 3. Germany shall be at liberty at any time to make payments in advance on account of the fixed portion of the sum owing.

Advance payments shall be applied in reduction of the fixed annuities provided for in the first paragraph of Art. 1. For this purpose the annuities shall be discounted at the rate of:

- 8 per cent. until May 1, 1923;
- 6 per cent. from May 1, 1923, to May 1, 1925;
- 5 per cent. from May 1, 1925.

ART. 4. Germany shall not directly or indirectly embark on any credit operation outside her own territory without the approval of the Reparation Commission. This provision applies to the Government of the German Empire, to the Governments of the German States, to the German provincial and municipal authorities, and to any companies or undertakings under the control of the said Governments or authorities.

ART. 5. In pursuance of Art. 248 of the treaty of Versailles all the assets and revenues of the Empire and of the German States shall be applicable to insure the complete execution by Germany of the provisions of the present arrangement.

The proceeds of the German maritime and land customs, including in particular the proceeds of all import and export duties, and of any tax subsidiary thereto, shall constitute a special security for the execution of the present agreement.

No modification which might diminish the proceeds of the customs shall be made in the German customs laws or regulations without the approval of the Reparation Commission.

All the German customs receipts shall be encashed on behalf of the German Government by a receiver general of the German customs appointed by the German Government with the approval of the Reparation Commission.

In case Germany should make default in any payment provided for in the present arrangement:

- (1) all or part of the proceeds of the German customs in the hands of the receiver general of the German customs may be attached by the Reparation Commission and applied in meeting the obligations in respect of which Germany has defaulted. In such case the Reparation Commission may, if it thinks it necessary, itself undertake the administration and receipt of the customs duties.
- (2) The Reparation Commission may also formally invite the German Government to proceed to such increases of duties or to take such steps for the purpose of increasing its resources as the commission may think necessary.
- (3) If effect is not given to this formal invitation, the commission may declare the German Government to be in default, and may notify the Governments of the Allies and Associated Powers accordingly, who will then take such measures as they may think justifiable.

Done at Paris, the twenty-ninth day of January 1921.

HENRI JASPAR.

D. LLOYD GEORGE.

AR. BRIAND.

G. SFORZA.

K. ISHII.

A supplementary resolution was taken to the following effect:

If the German Government fails to take necessary measures in view of execution of the demands drawn up by the Allies during the present conference and relative either to disarmament or reparation, the following penalties will be applied:

1. The date from which will begin to run the term of occupation of the Rhine territories will be that on which satisfaction has been given to the Allies.

2. There will be occupation of a new section of German territory, either the Ruhr or some other.

3. Suitable measures, customs or other, will be applied in the occupied Rhineland.

4. The Allies will oppose the entry of Germany into the League of Nations.¹

Mr. Lloyd George made the reservation that the agreed penalties applied to the collection of the amounts' rather than to the

¹*Le Temps*, February 26, 1921.

enforcement of any particular method then planned. He pointed out that it was a question whether the Allies could lay down flatly penalties if Germany did not accept the 42-year plan payment, inasmuch as the treaty says 30 years.

The French Chamber gave Premier Briand a vote of confidence, 387 to 125, on February 9, after a spirited debate; and the agreement was ratified on the same day, 395 to 83.

Germany's Counter Proposal

The German Government participated in a conference held in London, March 1-7, to discuss this proposal, putting forth at the outset the following counter-proposition:

The proposals approved by the Interallied Conference of Paris on January 29, 1921, concerning the execution of the reparation provisions of the treaty of Versailles are, in the opinion of the German Government, impossible of execution for economic and financial reasons which have been explained at length in the memoranda presented to the London Conference. Germany is, however, prepared in her counter-proposals to go to the limit of the possibilities which would present themselves in case of material improvement of her economic capacity in the future. It is in this hope that the German Government finds it possible to draw up a schedule of payments on the following basis:

A. The present value of the 42 annuities asked for by the Allies in their agreement of January 29, if rediscounted at the rate of 8% per annum, which rate has been offered to Germany, would total something over 50 milliards of gold marks. A similar figure has been repeatedly mentioned in the allied press. From this round sum of 50 milliards of gold marks is to be deducted the total of what has up to now been paid, ceded and delivered by Germany on reparation account. The value of these advance payments is estimated by Germany at a net 20 milliards of gold marks. Any lesser deduction for the reparation so far made would necessitate payments the total of which would exceed anything which might be reasonably expected from the improvement of Germany's economic condition. In order to ascertain the exact value of all reparation so far made it would be best to appoint a special mixed commission of experts.

By deducting this value from the present value of the annuities demanded by the Paris agreement, as stated above, one arrives at the total amount of the payments which Germany has still to make. The latter amount should be raised as soon as possible by means of international loans. Since it will not be possible to raise the total amount, or even the

greater part of it, in the near future, by a single international loan, one should begin with financing a part of it. To that effect Germany proposes to issue a loan to the largest possible extent, say, up to eight milliards of gold marks, which should be offered for subscription, if possible, in all international markets, and be exempt from taxes of any kind in all issuing countries.

The rate of interest to be paid for the loan should be as low as possible. The amortization should begin after five years with 1% and rise to 1½% per annum. Germany is prepared to grant to the holders of the loan the security necessary for the service of the loan.

Apart from the service of the loan, Germany for the next five years undertakes to pay an annuity of one milliard of gold marks. This annuity shall in the first place be covered by deliveries in kind which should be based as much as possible upon free intercourse between the German industries and the allied parties interested.

Germany furthermore expresses again her readiness to co-operate in the work of actual reconstruction of the devastated areas. The value of that work should likewise be accounted for against the annuities. The amount of the reparation debt of Germany not immediately covered by the international loan or otherwise shall carry interest at 5% per annum. Against that interest there shall be accounted for up to May 1, 1926, the five annuities of one milliard of gold marks each mentioned above. The amount of interest which may remain uncovered in this manner shall be added to capital account on May 1, 1926, without calculation of compound interest.

All further provisions for the financing of the remaining reparation debt of Germany shall be reserved to future arrangements, especially as regards the amortization, which shall not begin before May 1, 1926. As soon as possible additional instalments shall be financed by way of international loans.

B. The levy of 12% upon German export as provided for in the Paris agreement is obviously meant to grant to the Allies a participation in any future improvement of Germany's economic condition. The underlying principle of giving the Allies a participation in the economic improvement of Germany is recognized as a sound one. This principle has even now been taken into full account, for the foregoing proposals are not based on the present capacity of Germany, but on an estimate which discounts any future improvement which may be reasonably expected.

C. All payments, cessions and deliveries still to be made by Germany and provided for in part VIII, section 1 and annexes, and in part IX of the treaty of Versailles are to be considered as made. The same applies to the delivery of the proceeds from destroyed war materials (Art. 169) and to obligations undertaken by Germany, in part X—*i.e.*, to submit to the

liquidation and retention of German private property in the allied countries. Her obligation to effect restitution by virtue of Art. 238 shall remain untouched.

D. It is understood by both parties that the condition provided for in Art. 431 of the treaty of Versailles shall be considered as fulfilled as soon as all the payments defined under A shall have been made.

In offering the foregoing proposals it is understood:

1. That the plebiscite in Upper Silesia shall decide in favor of Germany, and that consequently Upper Silesia shall remain with Germany.

2. That the commerce of the world shall be freed from the existing impediments, and that economic freedom and equality of rights shall be established throughout.

Ultimatum Announced

In his reply on March 3 President Lloyd George, after insisting that Germany's responsibility for the war was decided by the treaty of Versailles which was founded upon that fact, continued:

A perusal of the speeches delivered in Germany and of the articles appearing in the German press has driven me reluctantly, very reluctantly, to the conclusion that Germany does not realize in the least the true character of the demands made upon her. I followed these very closely. The German people are under the impression that our demands are an intolerable oppression designed to destroy their great country and to enslave their great people. Let me say at once that we regard a free, a contented, and a prosperous Germany as essential to civilization, and that we regard a discontented and an enslaved Germany as a menace and a burden to European civilization. We have no desire to oppress Germany. We have no desire to impose a bondage upon her people. We simply ask that she should discharge obligations she has entered into to repair injuries inflicted by a war which her Imperial Government was responsible for provoking.

Under the treaty of Frankfurt she laid down the principle, and acted upon it, that the nation that was responsible for provoking a war ought to pay the costs of the war. We are not asking for the costs of the war. Not a penny. Not a penny. We are not going as far as the principle of the treaty of Frankfurt. The war charges of the allied countries in the aggregate are so enormous that it would be quite impossible to ask any country—any single country—to bear them. That we realize.

What have we asked, then, of Germany? And I think it is important that the German public should thoroughly understand the character of the demand, because I am certain that they are not appreciating it. We have simply insisted that Germany shall pay reparation in respect of

the charges cast upon our respective countries by material damage to property and by injuries inflicted upon the lives and limbs of the inhabitants. We have asked for no more, we can take no less.

He reviewed at length the devastation, damage and losses of the victors, and came to a criticism of the offer. Then, after reviewing the condition of German public finance which he found less burdensome in respect of taxation than the British, the president of the conference said:

The Allies have been conferring upon the whole position, and I am now authorized to make this declaration on their behalf:

The treaty of Versailles was signed less than two years ago. The German Government have already defaulted in respect of some of its most important provisions: the delivery for trial of the criminals who have offended against the laws of war, disarmament, the payment in cash or in kind of 20,000,000,000 of gold marks. These are some of the provisions. The Allies have displayed no harsh insistence upon the letter of their bond. They have extended time, they have even modified the character of their demands; but each time the German Government failed them.

In spite of the treaty and of the honorable undertaking given at Spa, the criminals have not yet been tried, let alone punished, although the evidence has been in the hands of the German Government for months. Military organizations, some of them open, some clandestine, have been allowed to spring up all over the country, equipped with arms that ought to have been surrendered. If the German Government had shown in respect of reparation a sincere desire to help the Allies to repair the terrible losses inflicted upon them by the act of aggression of which the German Imperialist Government was guilty, we should still have been ready as before to make all allowances for the legitimate difficulties of Germany. But the proposals put forward have reluctantly convinced the Allies either that the German Government does not intend to carry out its treaty obligations, or that it has not the strength to insist, in the face of selfish and short-sighted opposition, upon the necessary sacrifices being made.

If that is due to the fact that German opinion will not permit it, that makes the situation still more serious, and renders it all the more necessary that the Allies should bring the leaders of public opinion once more face to face with facts. The first essential fact for them to realize is this—that the Allies, while prepared to listen to every reasonable plea arising out of Germany's difficulties, can not allow any further paltering with the treaty.

THE ULTIMATUM

We have therefore decided—having regard to the infractions already committed, to the determination indicated in these proposals that Germany means still further to defy and explain away the treaty, and to the challenge issued not merely in these proposals but in official statements made in Germany by the German Government—that we must act upon the assumption that the German Government are not merely in default, but deliberately in default; and unless we hear by Monday [March 7] that Germany is either prepared to accept the Paris decisions or to submit proposals which will in other ways be an equally satisfactory discharge of her obligations under the treaty of Versailles (subject to the concessions made in the Paris proposals), we shall, as from that date, take the following course under the treaty of Versailles.

The Allies are agreed:

- (1) To occupy the towns of Duisburg, Ruhrort, and Düsseldorf, on the right bank of the Rhine.
- (2) To obtain powers from their respective Parliaments requiring their nationals to pay a certain proportion of all payments due to Germany on German goods to their several Governments, such proportion to be retained on account of reparations.¹

That is in respect of goods purchased either in this country or in any other allied country from Germany.

- (3) (a) The amount of the duties collected by the German custom houses on the external frontiers of the occupied territories to be paid to the Reparation Commission.
- (b) These duties to continue to be levied in accordance with the German tariff.
- (c) A line of custom houses to be temporarily established on the Rhine and at the boundary of the *têtes des ponts* occupied by the allied troops; the tariff to be levied on this line, both on the entry and export of goods, to be determined by the Allied High Commission of the Rhine territory in conformity with the instructions of the allied Governments.²

¹Mr. Lloyd George explained that the second sanction meant as follows:

"Deduction of the purchase value of any goods bought by Germany from allied countries. A certain proportion will be paid into the Exchequer here and the rest will be forwarded to Germany with an Exchequer receipt for the amount which had been paid in."

The British Reparation Recovery Act has been in force since April 1, 1921 (see p. 97).

²This provision was enforced from March 8 to October 1, 1921.

German View Stated

Dr. Simons replied on March 7 when the conference reconvened after many private efforts at negotiating the difficulties between the parties. The German plenipotentiary said in substance:

On account of the far-reaching differences of opinion of both parties at this moment, and the grave difficulties in the way of a perfect solution of the reparation problem, we are under the necessity of abandoning the idea of presenting to you a new plan to-day for the total reparation.

Thus, in spite of serious objections, we have decided to revert to the idea of a provisional arrangement. I may draw attention to the fact that allied experts have unanimously recommended their Governments to provide in the Paris conference for German reparation demands only over a period of five years, because after long and thorough investigation they are convinced that that enormous problem could not be solved in such a short time. I further may remind the conference that even some of the allied Governments just before the decision of Paris had emphatically denied the possibility of at once determining the total indebtedness of Germany, and had, therefore, asked for a provisional arrangement covering from three to five years.

All these considerations have induced us to consider the definite settlement for the next five years in order to prove that we want to satisfy the Paris demands of the Allies as far as possible. We should be prepared to pay the fixed annuities provided for for the first five years, and in addition to give full equivalent for the levy of 12% on our exports which has been demanded from us, but which we do not think to be practical. We know very well that such tremendous payments are only possible if a large part of them can be financed by way of a loan. We are, however, led to make such a proposal only if there were a chance of its being taken into consideration by the allied Governments; but we can make the proposal only on the understanding that Upper Silesia, by virtue of the plebiscite, will remain with Germany, and that the restrictions which are imposed upon us in the commerce of the world shall be abolished. Both would be necessary to enable Germany to promise such high payments in an honorable way.

Whether we shall present to you to-day a proposal of that kind is entirely for you to decide. If you should agree to it we would do our best to co-operate with your experts to discuss the details of the proposal and then to establish as soon as possible a comprehensive plan of reparation for the period of 30 years. If, however, . . . you should insist upon the demand that we immediately have to make to you a fixed offer, a fixed total offer, it will be necessary for me to ask for a delay of about a week in order to consult personally on the matter with the cabinet at Berlin. . . .

FULLY AWARE OF DAMAGE

If there is such a large difference between the Paris agreement of the allied powers and the London counter-proposals made by Germany, this is not to be explained by any intention upon the part of the German Government to evade their treaty obligations or even to mock the treaty, but by the fact that they differ from the Allies in estimating on the one hand the effects of the Paris agreement, and, on the other, the capacity of Germany's economic organization. We are fully aware of the immensity of the damage wrought by the war in all belligerent countries and of the extent of that part of this burden which we have undertaken to shoulder by the Paris treaty, but we are also aware that nobody would be benefited by our fixing now for many decades our obligations in a manner which, according to the result of careful examination, far exceeds our own capacity as well as that of our children and grandchildren. . . . We would for the sake of a final settlement even have gone so far as to accept the principle of the Paris resolutions that the total reparation would have to consist of the fixed annuities and variable factors which would increase with the increasing capacity of Germany. On the other hand, we have, even in the way of careful examination in accordance with the unanimous wish of the Government and of the nation in Germany, not been able to resolve to accept the rest of the resolutions of the articles of the Paris agreement on our part. According to the declaration of the other adversaries the Paris agreement is meant to meet us halfway. We prefer for the time after the lapse of five years not to make use of this intention to meet us but to keep intact the present provisions of the peace treaty. I am not able to see how far this might be regarded as a wilful and deliberate refusal on the part of Germany.

In order to prevent mistakes I may here remark that it is understood that the German delegation would prefer the settlement of the total reparation debt to be calculated according to the provisions of the peace treaty.

. . . I have deliberately avoided speaking here of the question of war guilt, because I am, on the contrary, of opinion that that would make an understanding more difficult. The treaty of Frankfurt started from the assumption that not the guilty party but the vanquished party had to pay the costs of the war. On the other hand, peace after the Napoleonic wars renounced payment of war costs in favor of France.

The question of war guilt is to be decided neither by the treaty, by acknowledgment, nor by sanctions; only history will be able to decide the question as to who was responsible for the world war. We are all of us still too near to the event. I have always been far from wishing to absolve the German Government of any responsibility for the war, but whether a single nation can be taken to be exclusively guilty of this terrible

war, and whether this nation would be the German people, has not been finally decided by the signing of the treaty of Versailles.

For us, this treaty is lawful, because we have put our signature to it. In doing so we have not only admitted that we have lost the war, but we have also signed a judgment. The president of the conference has laid stress on the fact that it is a *chose jugée*, but, as you know, any law reserves the possibility of invalidating even a *chose jugée* if the condemned party succeeds in furnishing new proof which could shake the reasons of that *chose jugée*.

OBLIGATION OF VANQUISHED

In so far I agree with the president of the conference that the condemned party has to obey the lawful judgment. It is the treaty law for us that Germany has to make reparation according to the peace treaty for the damages caused by the war. I entirely agree with Mr. Lloyd George in the view that the world should realize as clearly as possible the extent of these damages, in order to wake on all sides the real and energetic determination to soften the distress consequent upon it and to restore the destroyed values. I have myself been traveling four times through a large part of the devastated areas, and have been deeply stirred by their sight. I am conscious of uniting with the large majority of my countrymen in the conviction that we must do our utmost to co-operate in the work of reparation.

If we have not been able to contribute more than we have done to the restoration of Belgium and Northern France, the reason has not been a lack of readiness on our part to do so. The working population of Germany is particularly alive to the feeling that they ought to assist the damaged inhabitants of the former hostile districts destroyed by our occupation. But this is a technical and social task of such an immense difficulty that our proposal to meet it has up to now met with doubts and refusal rather than with approval. On the basis of the inquiries we have made in order to solve our own housing questions, we believe we are in a position to put before the allied Governments new proposals which perhaps might serve to scatter those doubts.

Besides, I can not help pointing to the powerful advance which even now has been made by Germany toward reparation and restoration. I grieve to state that these achievements are not being duly appreciated by public opinion in the allied countries, and that it is still being pretended that Germany shows bad intention and avoids fulfilling the treaty. There may be disagreement as to the figures expressing the value of Germany's achievements, but no impartial critic could deny that for a nation impoverished and exhausted by the war and the blockade these achievements mean a vast exertion and have at the same time been of material assistance in the restoration of the devastated areas. . . .

THE QUESTION OF SANCTIONS

I should like to caution the Allies not to attempt to press out of Germany more payments than she can give. Nor is the menace of sanction justified by the provisions of the peace treaty, for only three of such provisions can serve as a starting point:—(1) Par. 18 of Annex II to Part VIII; (2) the concluding sentence of Art. 429; and (3) Art. 430. . . .

More important for me than the question of right is the reflection that any sanction, if it fails to attain its purpose, must call for new sanctions, and so, finally, instead of executing the treaty, lead up to preparing a new state of violence. But we all of us very badly want to get out of the unhealthy atmosphere of compulsion and into the wholesome atmosphere of voluntary co-operation. Mr. Lloyd George has said that it is not the intention of the Allies to ruin and enslave Germany, but that they recognize a restored and flourishing Germany as a condition of their own welfare. These generous words meet with a lively echo on our side. We are likewise conscious that Germany can never come under the restoration of her own destroyed economic life so long as her former adversaries have to suffer so immensely under the consequences of the war. However the question of war guilt may one day be decided, we are all in a common distress which can only be removed by a common effort. Believe me that Germany is ready to exert herself more than the others.

We ask the Allies to assist us in finding ways to fulfil our obligations. We believe that the manner of our payments should be examined separately for each of the allied countries. Perhaps we shall have to adopt different methods of balancing payments in cash and payments in kind to France as compared with England and to Belgium as compared with Italy. We shall also have to examine how far the demands which other powers which are not parties to the peace treaty will put to us will be able to be satisfied on the basis of our agreement with the Allies.

All these questions, in order to be practically solved, require being thoroughly studied by technical experts to be appointed from both sides. I hope that the joint labors of these authorities in the economic life of Europe may succeed in finding a way out of the labyrinth of grave economic difficulties under which we all of us jointly struggle.

Mr. Lloyd George at the afternoon session made the reply, saying in part:

I very much regret that I have to state on behalf of the allied Governments that not only the proposals made by Dr. Simons this morning are not acceptable, but that, in spite of the interval which has occurred since our last meeting, they do not represent such an advance upon the first proposals as to justify us in postponing the execution of the sanctions.

... It is common ground to all the parties concerned that it is essential in the interests of the peace of the world that there should be a definitive settlement of the outstanding questions between us. Germany urged it. The Allies pressed the same consideration. And the neutrals were equally insistent. In fact, the friends of peace throughout the world said to us, "Settle up as soon as you can the amount of your liabilities, so that every country should know exactly where it stands."...

What is Dr. Simons's proposal? There is an appearance of accepting the Paris proposals for five years, and five years only. But that is apparent and not real. It is subject to conditions which make it uncertain, which might terminate it in the course of the next few weeks. It is subject to the plebiscite in High Silesia. If the plebiscite in High Silesia, or in part of it, is adverse to Germany, Dr. Simons, if we accepted his proposal, would be perfectly justified in coming here and saying: "The situation has changed. Germany has been deprived of the territory upon which she depended to pay those annuities, and therefore the arrangement which I made in London is at an end."

That is, it is not a proposal for five years; it is a proposal for five weeks. It is subject to other conditions, which I do not want to dwell upon at the present moment because they have not been elaborated. . . .

After the five years we have no proposal; not even a conditional one; not a figure. Not even a precise method of arriving at a figure. There is no minimum, even. It is perfectly vague. There is nothing the Allies, especially those who want to raise money for repairing their ravaged country; there is nothing they could raise one paper franc in the market upon in the proposals made—not one; letting alone a gold mark. There are some indications which are disquieting; for instance, it is part of the five-year proposals that Germany should pay even the low figures fixed for the annuities for those five years not out of her current revenue, but by means of a loan. She is to borrow. By borrowing she mortgages her future. She will borrow—must necessarily borrow—with a guaranty of priority for those who lend even over reparations. . . .

But there are certain significant sentences used by Dr. Simons which show clearly that Germany has not yet faced her problem. He talked about the enormous sacrifices which are to be necessary for Germany to make in order to pay the annuities for the first five years. Let me give the cases of Great Britain and France. . . . If Germany carries out this year the Paris proposals she will have to find 120 millions sterling, not for Great Britain but for all the Allies—one-fourth of what Britain alone has to find with a million unemployed for war debt charges and for pensions.

The case of France is more striking. France, in addition to her war charges and her very heavy pension list, has to find 12,000,000,000 francs

for repairing her devastated area. She must find it this year somewhere or leave those provinces unrestored. Germany would have to find, therefore, this year one-ninth of what France has to find; one-ninth for the whole of the Allies of what France has to find herself for the charges of the war. . . .

I am quite prepared to make an allowance for the difficulty of paying beyond the frontiers. That is not a question of sacrifice; that is a difficulty of currency that can easily be overcome by any well-thought-out arrangement for deducting from the price of German sales to allied countries a proportion of the purchase money.

The other very significant part of Dr. Simons's speech, in view of the character of the proposals, was his refusal to accept on behalf of Germany the responsibility for the war, which is the very basis of the treaty of Versailles. . . .

The Allies can not possibly enter into any discussions upon that basis. The responsibility of Germany for the war is, with them, fundamental. The whole treaty of Versailles depends upon it, and unless Germany—whatever she may think of the verdict—is prepared to act upon it, then no arrangement which is made can give confidence between the parties and restore that atmosphere of neighborly good will which is essential to the peace of Europe.

The Paris proposals represented a considerable abatement of the full claims of the Allies, but that abatement was made in order to insure a settlement. As I have already indicated to Dr. Simons on behalf of the Allies, we are willing to discuss with Germany the length of the period of the annuities. We are willing to discuss with Germany any other method besides the 12% for adjusting the annuity to German prosperity.

But we must insist on a settlement now of two questions. The first is the amount of the payments, or the factors which should determine those amounts automatically according to the prosperity of Germany. What those factors should be we are prepared to discuss. Whether the index of German prosperity should be 12% on her exports or some other method of arriving at that essential element, that we are prepared to discuss, but we must have something that will either determine the amount or determine the index which will settle the variable amount.

The second point upon a settlement of which we must now insist is the method of payment. A mere paper agreement promising payment is unsatisfactory and insufficient. It means endless disputes. We must arrange now how the money is to be paid, so that there should be no possibility of further discussions or quarrels.

The proposals put forward by Dr. Simons do not carry out any of these objects. They are neither the Paris proposals nor their equivalent. I am afraid, and Dr. Simons will forgive me for saying this, he is not really

in a position to negotiate. He represents and he is returning to report to a public opinion which is not ready to pay this debt. In the interests of the Allies, in the interests of Germany, in the interests of the world, we must have a settlement, we must have a definite settlement, and we must have an immediate settlement.

Proposals such as those which we have heard are not a settlement. They simply evade and postpone settlement, and very regretfully we have come to the conclusion that the sanctions must be put into operation immediately.

Later in the afternoon Dr. Simons was given the opportunity to reply. He said:

I must say I regret that also to-day the purpose of our new proposals has been mistaken. For us, just as for you, the disadvantages of a provisional settlement are beyond doubt. But we have taken refuge in such a provisional settlement under pressure of your ultimatum, which ended to-day, and which forced us to come forward with definite proposals. We should have preferred to put before you a plan of a total arrangement, a plan like that which we originally started with.

Even now we should prefer to come forward with a plan for a total arrangement, but I regret to say that we had no second proposals in our pocket, and this is the reason why we had to try to find a new way, a way which we have striven to find both here in the delegation and in Berlin in the cabinet. I have been charged, and I have acted according to this charge, to ask you for a brief delay in order that we might get into touch with the cabinet at Berlin. I may here state that we have been refused even this short delay. From this fact it already appears that the fear is unfounded that we should want to make use of the provisional settlement to strive toward a revision of the whole treaty after the lapse of those five years.

On the contrary, the German nation has undertaken its obligation of making reparation, and it is ready to fulfil the whole of this obligation to the limits of possibility. We are, therefore, ready to enter upon the idea of the president of this conference to furnish the Allies part of the means which would be required for purposes of reparation by laying hold of part of the purchasing prices of German goods delivered into the allied countries on reparation account.

I have submitted and recommended this proposal to my Government, and I can only say I regret that this proposal should have been discredited in the public opinion of Germany by having been placed by you among the sanctions to be taken against Germany. We agree with the president of the conference also on this point, that it would be advisable as quickly

as possible to get the fixed sums determined, and to get also determined the factors of the varied payments in the case of her economic recovery which Germany would have to make toward reparation. We further agree with your intention to set up an examination of the method of the fixed and varied payments to the different countries. Also these points in our opinion should be deliberated on by a joint committee of experts as soon as possible, and I can only state that it is a pity that when these experts are going to meet the atmosphere in which they will meet will be embittered by the sanctions which are to be put in force against us.

I feel obliged at this moment, when the sanctions are definitely going to be put into force against us, once more to enter with all due stress a protest against this your procedure.

The ultimatum was put into force on March 8 when troops, consisting of 10,000 French and 5,000 Belgian infantry and of two squadrons of British cavalry, occupied Düsseldorf, Duisburg and Ruhrort.¹ The French General Degoutte was commander-in-chief of the expedition. In a proclamation issued to the people he announced that there would be no interference with the economic life of the region "under the reserve of strict observance of orders which the military authority will judge it indispensable to promulgate." The Allies took immediate action to put in a special customs régime, closing the occupied territory on the German side and throwing down the tariff bars on their own. The occupation continued as late as July, 1922.

On March 12, the Reichstag after a partisan debate approved the action of Foreign Minister Simons by a vote of 268 to 49. On March 17, the French Chamber gave Premier Briand a vote of confidence of 491 to 66.

¹The territory occupied and placed under a special customs régime as a result of the ultimatum was defined as follows by an ordinance of the Interallied Rhine Commission effective on April 20, 1921:

1. The Rhine, from its entrance into the Netherlands to the height of Lohausen (north of Düsseldorf), including the parts of Schweigern, Ruhrort and Duisburg;
2. A bridgehead near Düsseldorf, indicated by Rathingen, south of Erkrath;
3. The bridgehead of Cologne;
4. The Rhine, between the two bridgeheads of Cologne and Coblenz;
5. The bridgeheads of Coblenz and Mainz joined between Diez and Waldsdorf, following the boundaries northeast of Diez and Langenschwalbach;
6. The bridgehead of Mainz to the Alsatian boundary.

2. THE COMMISSION EXAMINES CLAIMS

All of these events had occurred without any decision having been reached upon the amount which the Allies were decided among themselves was owed to them by Germany. The procedure laid down by the treaty was that the claims of the various Allies should be certified to the Reparation Commission, which should examine them and, determining their amount after hearing Germany, should notify the sum decided upon to that country. The Reparation Commission finally announced to the Allies that no claims would be received after February 12, 1921. The claims in hand were then presented to the Germans, and were as follows:

Claims against Germany

presented to the Reparation Commission as of February 12, 1921, reduced to German gold marks on the basis of exchange on February 11, February 12 having been a holiday in New York (original figures, *Paris Temps* of February 24, 1921).

<i>France</i>	
	<i>Paper francs</i>
Damages to property:	
Industrial	38,832,521,479
Buildings	36,892,500,000
Personal	25,119,500,000
Unimproved	21,671,546,225
Public works	2,533,299,425
Property of the state	1,858,217,193
Other damages	2,359,865,000
Maritime damage	5,009,618,722
Damage in Algeria, in the colonies and abroad	2,105,535,000
Interest at 5% since the armistice	4,125,000,000
Injuries to persons:	
Military pensions	60,045,696,000
Allotments to families of soldiers	12,936,956,824
Pensions to civilian war victims	514,465,000
Maltreatment of civilians and of prisoners of war	1,869,230,000
Assistance to prisoners of war	976,906,000
Insufficient remuneration	223,123,313
Exactions to the detriment of the civil population	1,267,615,939
	<hr/>
Total	218,441,596,120

OTHER PRINCIPAL CLAIMS

Great Britain

	<i>Pounds sterling</i>
Damage to property	7,936,456
Maritime damage	763,000,000
Damages abroad	24,940,559
Damages to river shipping	4,000,000
Military pensions	706,800,000
Pensions to civilian war victims	35,915,579
Maltreatment of civilians and prisoners of war	95,746
Assistance to prisoners of war	12,663
Insufficient remuneration	6,372
	<hr/>
	1,542,707,375
• Allotments to soldiers' families (francs)	7,597,832,086

Italy

	<i>Lire</i>
Damages to property	20,933,547,500
Civil and military victims and prisoners of war	12,153,289,000
	<hr/>
Total lire	33,086,836,500
	 <i>Pounds sterling</i>
Maritime damage	123,000,000
	 <i>Francs</i>
Military pensions	31,041,000,000
Allotments to soldiers' families	6,885,130,395
	<hr/>
Total francs	37,926,130,395

Belgium

	<i>Belgian francs</i>
Damages to property	29,773,939,099
Maritime damage	180,708,250
Civilian victims and prisoners of war	4,295,990,454
	<hr/>
Total	34,250,637,803
	 <i>French francs</i>
Military pensions	1,637,285,512
Allotments to soldiers' families	737,930,484
	<hr/>
	2,375,215,996

<i>Japan</i>	32,774,000 yen
<i>Serb-Croat-Slovene State</i>	{ 8,496,091,000 dinars
	{ 10,219,700,112 French francs
<i>Rumania</i>	31,099,400,188 gold francs
<i>Portugal</i>	1,944,261 contos
<i>Greeco</i>	4,992,788,739 gold francs
<i>Brazil</i>	{ £1,216,714
	{ 598,405 French francs
<i>Czecho-Slovakia</i>	{ 7,063,117,135 crowns
	{ 7,612,432,103 French francs
<i>Siam</i>	{ 9,179,298 gold marks
	{ 1,169,821 French francs
<i>Bolivia</i>	£16,000
<i>Peru</i>	{ £56,236
	{ 107,389 French francs
<i>Haiti</i>	{ 532,593 francs
	{ \$80,000
<i>Liberia</i>	\$3,977,135
<i>Cuba</i>	\$801,185
<i>Poland</i>	{ 500,000,000 gold marks
	{ 21,913,269,740 gold francs
<i>European Commission of the Danube</i>	{ 1,834,000 gold francs
	{ 488,851 lei
	{ 15,048 French francs

The total value of these claims reduced to German currency on the best basis available, exchange quotations of the period, is 184,011,773,044 gold marks.

Commission's Effort to Supply Facts

The Reparation Commission gave Germany as fair a hearing on the claims as its subordination to the creditor states permitted. It was not until February 9-20, 1921, that it was enabled to transmit to the German delegation the lists of damages claimed by the various allied Governments. From that time on it strictly followed the provisions of Art. 233 of the treaty, which provides that the "commission shall consider the claims and give to the German Government a just opportunity to be heard." The commission received more than 120 memoranda from the Germans concerning the lists and replied to several hundred requests for additional information as to their details. It permitted German experts to meet experts of the claimants to study together the lists presented. Finally, in plenary session it heard the German delegation at five sittings from March 22 to April 12, on which date the hearings

were completed and the commission began the task of making its findings in the premises.

Germany, with the mass of detail available to her, found the same difficulty that the unofficial student of the claims encounters—that of getting any objective evidence as to the basis of the claims preferred. Her delegation in the course of the commission hearings made a statement summarized as follows:

The majority of the claims made by the Allied and Associated Powers have not contained details and justificatory documents sufficient to permit an examination of their methods of evaluation and of the figures resulting from them. Moreover, they were so tardily remitted to the Reparation Commission that only a relatively short time remained for verification. Consequently, the efforts of both the German delegation and Reparation Commission to make an objective fixation of the total amount of the damages in conformity with the provisions of the treaty of Versailles can not be completed. In spite of the co-operation of numerous experts, Germany has not succeeded in taking a position in a final and complete manner. It is only in certain cases that it has been possible to put a German evaluation against that of the allied powers. For the rest, the German delegation must confine itself to a few observations and objections against the methods adopted, against the damages included in the account and the manner of valuing them.

The president of the commission in reply said one word for the commission and none for the Allies:

It has gone to the length of transmitting to the Germans the detailed memoranda of damages in their original texts just as they were received from each power, granting very long periods for requesting additional information. It has replied to all questions to which it has been possible to reply. Finally, it has taken important decisions on questions of principle only after submitting to the Kriegslastenkommission a provisional text for its observations.¹

Germany was invited by the Reparation Commission to a hearing on the proposed schedule of payments on April 29. This invitation was not accepted by Herr von Oertzen, head of the Kriegslastenkommission, who on April 28 transmitted the following reasons:

According to the instructions given me by the German Government, I am not in a position to negotiate respecting the project of payment on April 29.

¹*Le Temps*, April 14, 1921.

The German Government has stated its views as to the solution of the problem of reparation at the conferences of Spa, Brussels and London, and some days ago submitted a new plan to the Government of the United States, but up to the present no reply thereto has been received.

Under these circumstances, therefore, the German Government would prefer to let the Reparation Commission draw up a project from its side, concerning which, however, the German Government makes all reservations. Further, it refers to the declarations made by its representatives during the negotiations which have taken place on the subject of the amount of the debt of Germany for reparation, declarations which have on several occasions drawn attention to the insufficiency of the periods granted for examination of the claims for damages and of the documents furnished in support of these claims.

The German Government should also draw attention to the fact that the Reparation Commission, in spite of the importance of the question, has thought that a period of 24 hours would suffice for the German Government to send its instructions to its representatives in Paris.¹

3. APPEAL FOR AMERICAN MEDIATION

The reference to the plan submitted to the United States relates to a correspondence which began in March with the newly elected Harding Administration. The American side of the exchange was characterized by a studious effort to give Germany no encouragement, an effort which was highly approved by the American public.

On March 23 Dr. Walther Simons as German minister for foreign affairs handed to the American commissioner at Berlin an informal memorandum which is given in paraphrase² as follows:

It is the earnest desire of the Government of Germany to reach an accord with the Governments of the allied and associated powers, and it is sincere in its purpose to meet their requirements as far as possible. That an agreement was not reached at the conference of London on the question of reparations is a matter of extreme regret to the Government of Germany. In their effort to reach an agreement the delegates from Germany went far beyond the limits considered possible for Germany in the judgment of an overwhelming majority of her economic experts.

¹*Le Temps*, May 4, 1921, 4.

²In relation to diplomatic documents the word "paraphrase" has a special meaning. These documents are transmitted in code and their translation into "clear" or ordinary language is called a paraphrase to indicate that the text made public is not identical with the original coded text in the files.

It has been asserted that Germany is reluctant to recognize her obligation to make reparations. This is not correct. It is entirely clear not only to the Government of Germany but to the German people also, that Germany must make reparation to the limit of her ability to pay. This realization on the part of Germany will not be altered in any way by any changes which may take place in the internal politics of the country. Every responsible group, particularly the workmen, of Germany, are imbued with the determination to do all that lies in their power to help in reconstructing the regions which have been devastated. Fundamental to this determination is the sober conviction on the part of responsible circles in Germany that an early removal of all traces of the devastations caused in France is to the best interest of Germany. It is the consensus of opinion, also, that the proposals made by Germany in regard to reparations must consider fully the financial necessities of the allied and associated Governments and particularly of France.

In view of the foregoing, two considerations in regard to reparations present themselves, both of which are of importance. These considerations are, first, the matter of the rehabilitation of the devastated regions, and, second, the immediate establishment by Germany of an actual sum of cash money, in foreign exchange, of important proportions.

In addressing ourselves to the first particular, namely, the rehabilitation of the devastated regions, certain facts are at once apparent. For four years ten of the 86 departments of France served as the theater of the war and sustained the severest blows of the conflict. In these ten departments a number of cities, towns and villages are either partly or entirely destroyed and wide stretches of fertile farming lands were laid waste. Only a little has been accomplished toward the rebuilding of homes, the reoccupation and the recultivation of the land in the two years that have elapsed since the ending of the war. For the immediate rehabilitation of these devastated regions Germany has repeatedly proffered labor, technical advice and material assistance. These offers have not been accepted, nor have they even reached the point of diplomatic exchange. The reason is not far to seek. Peculiar though it may seem, there exists in France only a limited degree of concern for the rehabilitation of the devastated regions. Advance indemnities have been given to the former occupants of the soil, and these occupants have removed to other parts of the country and taken up their abode there. The salvaging of the abandoned war materials, and the cleaning up of the war areas has been undertaken by influential groups of promoters who are making no effort to expedite the performance of their contracts. The fact that influential opinion in France sees in the devastated regions a remarkable opportunity for a political agitation which will always make a deep impression in the minds of the people of France and on foreigners has an

important bearing on the issue. The German Government does not desire to see hate perpetuated between nations. In accordance with this purpose, it intends to submit fresh proposals on this subject to the Government of France, the details of which are now under consideration and the subject of discussion with the laborers of Germany. Should the Government of France entertain objections to the employment of numbers of German laborers in the areas undergoing reconstruction, the Government of Germany stands ready to offer to France good offices and resources in whatever form is acceptable.

In respect of the second consideration, namely, the immediate establishment by Germany of an actual sum of cash money, in foreign exchange, of important proportions, it is obvious that Germany can fulfil this obligation only through large increases in the volume of her exports. The memoranda prepared by the economic experts of Germany for use at the conference at London demonstrated how huge this increase in Germany's exports necessarily would be if great sums of money were thereby to be obtained, and the menace this great increase would imply to the economic life of other countries. Conceding even this, it further remains that the sums in cash required could not be immediately realized.

Other considerations have been advanced at various times, among them the proposal that our former opponents in the great war should participate in the returns from German industry, either through taking shares of the capital stocks of German companies or by other forms of the sharing of profits. Such a proposal would produce only proceeds in paper marks, valueless to foreign creditors. Indeed, the allied and associated Governments themselves negatived these proposals, in the treaty of Versailles, by taking for themselves a first mortgage on the total wealth and all sources of income of the German Commonwealth and states. In addition to this, the allied and associated Governments in their deliberations at Paris reserved for themselves the decision as to what opportunity, if any, Germany may in any instance be given to obtain credits abroad because England and France are themselves in debt beyond their limit and the granting of a credit to Germany by a neutral power is blocked by the general mortgage.

Sees Loan as Only Solution

An international loan, in favor of which the allied and associated Governments would waive their general mortgage, constitutes the only solution of the problem. The Government of Germany is prepared to offer the necessary securities for the safety of such a loan. It is the opinion of the German Government that, if the loan were properly organized and offered, and if those who have evaded taxation be granted a general amnesty, the

large sums of German capital which have secretly withdrawn from Germany could again be drawn in for the loan and thereby become available for the reparations. It has been reiterated by the allied and associated Governments that the situation of Germany is better than that of many of the allied and associated countries, due to the fact that Germany has no foreign debts. Germany would not be unwilling to assume the obligation of the interest and the amortization of the foreign debts of the allied and associated powers, within the limit of her capacity, should this measure be entertained by the allied and associated Governments and their creditors.

Germany stands ready to meet any proposal which appears feasible for the solution of the economic and financial problems of Europe, and would invite the examination by unbiased experts of its own ability to make payment. It is the opinion of Germany that the heavy weight of debt now borne by all the states which were participants in the World War, and the damages which were wrought in the course of that war, can not be laid upon the shoulders of any single people. Germany believes also that a policy of duress and coercion will not bring about the reconstruction of international economic life and that only by way of peaceful discussion and understanding can such reconstruction be obtained. The German Government considers it important to give, with solemn emphasis, the assurance that for its part it is honestly willing to follow the path which it has suggested.

America Suggests New Negotiations

The Secretary of State on March 29 instructed the American commissioner at Berlin to reply with the following statement:

The American Government is pleased to note in the informal memorandum of Dr. Simons the unequivocal expression on the part of the German Government of its desire to afford reparation up to the limit of German ability to pay. This Government stands with the Governments of the Allies in holding Germany responsible for the war and therefore morally bound to make reparation, so far as may be possible. The recognition of this obligation, implied in the memorandum of Dr. Simons, seems to the Government of the United States the only sound basis on which can be built a firm and just peace under which the various nations of Europe can achieve once more economic independence and stability. This Government believes that it recognizes in the memorandum of Dr. Simons a sincere desire on the part of the German Government to reopen negotiations with the Allies on a new basis and hopes that such negotiations, once resumed, may lead to a prompt settlement which will at the

same time satisfy the just claims of the Allies and permit Germany hopefully to renew its productive activities.

This correspondence was transmitted to the diplomatic representatives of the principal allied powers in Berlin. The German Government took comfort out of the reply, and so did the Allies. Both sides were, however, disappointed in the expectation of American support.

As May 1 approached public attention became centered on the expectation that France was going into Germany. The threats of force began early in April. To the Senate on April 5 Premier Briand declared "that if on May 1, Germany tries to escape by dodging, it is a firm hand which will grip her by the collar. It will be our right, and it will be our duty to collect our debts by force. . . . We are strong, and because we are strong we will be paid." On April 12 to the Chamber he said: "The time for words has passed. We must now revert to acts." And further: "I repeat here, with all the strength at my command, that we creditors hold a perfectly legal deed. A process server has been dispatched to Germany, and if our debtor persists in refusal to pay, the next time a policeman will accompany him. It is no use to begin over again discussions already closed. We have in hand a promissory note duly signed, and if the debtor refuses to pay we must coerce him by all means of coercion we have in our power. In full agreement with our Allies, we have a rendezvous with Germany on May 1. France shall not fail that rendezvous."

Mobilization of troops followed.

American Mediation Asked and Refused

Doubtless due to such threats, which met with general sympathy outside of Germany and the other debtor states, the United States was asked to mediate the problem. The request, dated April 20, was couched in the following terms:

In the name of the German Government and the German people, the undersigned, notwithstanding the still existing technical state of war, respectfully petition the President of the United States of America to mediate the reparation question and to fix the sum to be paid by Germany to the Allied Powers and eagerly urge him to secure the consent of the Allied Powers to such mediation. They solemnly declare that the Ger-

man Government are ready and willing to agree without qualification or reservation to pay to the Allied Powers as reparation such sum as the President after examination and investigation may find just and right. They formally pledge themselves to fulfill in letter and spirit all the provisions of any award that may be made by him.

With abiding faith in the righteousness of this request and with undeniable sincerity of purpose the German people through their constituted government submit their appeal to the President of the United States with the confident hope that it be granted to the end that a final award may be made in accordance with right and justice to meet the heartfelt wishes of all civilized nations, to avoid the immeasurable consequences of imminent coercive measures and to promote the peace of the world.

(Signed) FEHRENBACH,—SIMONS.

The reply of the Secretary of State of April 21, forwarded through the American commissioner at Berlin, reads:

This Government could not agree to mediate the question of reparation with a view to acting as umpire in its settlement. Impressed, however, with the seriousness of the issues involved as they affect the whole world, the Government of the United States feels itself to be deeply concerned with the question of obtaining an early and just solution. This Government strongly desires that there should be an immediate resumption of negotiations and reiterates its earnest hope that the German Government will promptly formulate such proposals as would present a proper basis for discussion. Should the German Government take this course, this Government will consider bringing the matter to the attention of the Allied Governments in a manner acceptable to them in order that negotiations may speedily be resumed.

Germany's Final Proposal

By this time the Supreme Council practice of concerting a program and handing it to Germany as an ultimatum was coming on for action. The public was unaware of the existence of the Reparation Commission's duty to fix the amount, and attention was centered upon the proposed unilateral action of the allied premiers. Germany's relations with the commission having been driven by lack of information and shortness of time into the *impasse* described above, there was only the door left ajar by the United States for her to try, an extensive proposal for deliveries in kind for restoration purposes¹ having fallen flat on its delivery

¹See p. 132.

to Great Britain on April 21. Germany on April 24 sent the following proposal of settlement to the United States, which for some unexplained reason has never been officially published:

The American Government has by its memorandum made it possible once more to solve the reparation problem by negotiation before measures of constraint render this problem insoluble.

The German Government appreciates the full importance of this action of the American Government. It has endeavored in the following proposals to put forward the maximum of what can be offered by Germany even in the most favorable situation.

These proposals are as follows:

1. Germany declares herself ready to undertake for the purpose of reparation a total engagement of 50,000,000,000 marks gold present value.

Germany is also ready to pay the value of this sum in annuities suited to her capacity of production up to an ultimate total of 200,000,000,000 marks gold.

Germany will carry out this engagement of payment in the following form:

2. Germany will immediately issue an international loan, the amount, rate of interest and amortization of which are to be agreed upon.

Germany will take part in this loan, and will give it extensive advantages. She will establish it on such a basis that an extremely high subscription figure can be expected. The proceeds of this loan will be put at the disposal of the Allies.

3. Germany will pay, to the extent of her capacity, in prestations the interest and redemption of the total sum to be paid which is not covered by the international loan. Germany considers actually to this end as possible an annual interest of 4% only.

4. Germany is disposed to permit the allied powers to share in an improvement of her financial and economic situation. Amortization of the sum remaining must therefore take variable form. In case of improvement this amortization, for which there will have to be established a scheme based on an index, would be raised. In case the situation should become worse the amortization would be lowered in a corresponding proportion.

5. To get clear as soon as possible of the remainder, Germany wishes to collaborate with all her forces in the reconstruction of the devastated regions. She considers reconstruction as the most urgent basis of reparation and as capable of attenuating in the most direct manner the war sufferings and hatred between peoples.

Germany offers to undertake herself the reconstruction of towns, villages

and hamlets designated or else to collaborate in reconstruction by means of her labor, materials and resources, or in any other manner agreeable to the allies. She will herself bear the cost of these payments.

A special note addressed to the Reparation Commission gives fuller details.

6. For the same purpose Germany is prepared to furnish payments in kind to the states that suffered from the war, and this in addition to reconstruction, according to a method as far as possible purely commercial.

7. To give undeniable proof of her good-will, Germany is ready to put immediately at the disposal of the Reparation Commission the sum of 1,000,000,000 marks gold in the following form: (1) 150,000,000 marks gold in the form of gold and silver coin; (2) 850,000,000 marks gold in the form of drafts on the Treasury, to be paid at the latest within three months in coin and in foreign currency.

8. In case the United States and allies should so desire, Germany would be disposed to take over to the limit of her capacity payment of the allied obligations to the United States on account of their debt to the latter.

9. Germany proposes to negotiate, with the assistance of experts on the subject, on the manner in which German payments for reparation will be taken into account on the total of Germany's debt, and in particular on the manner in which price and value shall be fixed.

10. Germany would be disposed to give to her creditors for every kind of credit all guaranties necessary, in a manner to be settled with more detail, these guaranties to be based upon state property and public revenues.

11. Execution of the above proposals would wipe out all other obligations of Germany in respect of reparation. The private property of Germans abroad would be also freed.

Germany only considers these proposals as capable of acceptance if the régime of penalties ends immediately; if the actual basis of German production is not further restricted, and if Germany is admitted to world trade and relieved from unproductive expenses.

Germany pledges herself to recognize as binding upon her the decision of the international committee of experts as to her capacities of payment.

If, in the opinion of the American Government, another form of proposals might render the matter easier to treat, the German Government asks that it be informed of the points on which modification might appear desirable to the American Government.

The German Government would receive all proposals of the American Government in the same spirit.

The German Government is too deeply convinced that the peace and welfare of the world depend upon the rapid, equitable and moderate

solution of the reparation question not to do all it can in order that the United States shall be in a position to draw the attention of the allied Governments to this matter.

The Fate of the Proposal

As soon as it was known that this document was on the way to Washington, Ambassador Jusserand called on the Secretary of State and directed his attention to the responsibility the American Government would assume in forwarding the German proposal to the creditor states. The United States was too important to act simply as a messenger; and the transmittal of the German note would stamp it with a certain degree of American approval. "If the Washington Government approved of the German offers, and they were satisfactory to the Allies, then approval and transmission by the United States would have the quality of a guaranty which would please the Allies."¹ Mr. Hughes, as a matter of fact, did not assume the responsibility. He asked the Allies their opinion and conformed to it eight days later. Meantime, on April 27, the Reparation Commission, which had been attending to its business while the premiers had been holding a session of the Supreme Council at Lympne, announced that it "had decided unanimously to fix at 132,000,000,000 gold marks the amount of damages for which reparation is due." May 1 passed without any one noting publicly that the commission had cut the latest greatly reduced allied figures by a full third. On May 2 the American Secretary of State sent this note to Dr. Simons, the German foreign minister, as an answer to the proposal of April 24:

The Government of the United States has received the memorandum left by Doctor Simons with the commissioner of the United States under date of April 24, relating to reparation. In reply this Government states that it finds itself unable to reach the conclusion that the proposals afford a basis for discussion acceptable to the allied Governments. This Government, therefore, again expressing its earnest desire for a prompt settlement of this vital question, strongly urges the German Government at once to make directly to the allied Governments clear, definite and adequate proposals which would in all respects meet its just obligations.

¹Associated Press report of April 25.

4. ULTIMATUM, SCHEDULE OF PAYMENTS, ACCEPTANCE

The Supreme Council, having lost its opportunity of fixing the amount of damages by the automatic functioning of its Reparation Commission, had left to it by the provisions of the treaty the notification of the commission's decision to the German Government. This was done in the form of an ultimatum covering various outstanding points of disagreement, as well as the Schedule of Payments. The note and the reply follow:

THE SUPREME COUNCIL TO THE GERMAN AMBASSADOR

LONDON, May 5, 1921.

The allied powers, taking note of the fact that, in spite of the successive concessions made by the Allies since the signature of the treaty of Versailles, and agreed upon at Spa and at Paris, as well as of the sanctions announced in London and since applied, the German Government is still in default in the fulfillment of the obligations incumbent upon it under the terms of the treaty of Versailles as regards (1) disarmament; (2) the payment due on May 1, 1921, under Art. 235 of the treaty, which the Reparation Commission has already called upon it to make at this date; (3) the trial of the war criminals as further provided for by the allied notes of February 13 and May 7, 1920;¹ and (4) certain other important respects, notably those which arise under Arts. 264 to 267, 269, 275, 321, 322 and 327 of the treaty, decide:

(a) To proceed forthwith with such preliminary measures as may be required for the occupation of the Ruhr Valley by the allied forces on the Rhine in the contingency provided for in Par. (d) of this note;

(b) In accordance with Art. 233 of the treaty to invite the Reparation Commission to prescribe to the German Government without delay the time and manner for securing and discharging the entire obligation incumbent upon that Government, and to announce their decision on this point to the German Government at latest on May 6;

(c) To call upon the German Government categorically to declare within a period of six days from the receipt of the above decision its resolve (1) to carry out without reserve or condition their obligations as defined by the Reparation Commission, (2) to accept without reserve or condition the guaranties in respect of those obligations prescribed by the Reparation Commission, (3) to carry out without reserve or delay the measures of military, naval and aerial disarmament notified to the German Government by the allied powers in their note of January 29, 1921, those overdue

¹For texts see Protocols and Correspondence, 32 and 110.

being completed at once, and the remainder by the prescribed dates, (4) to carry out without reserve or delay the trial of the war criminals and the other unfulfilled portions of the treaty referred to in the first paragraph of this note;

(d) Failing fulfillment by the German Government of the above conditions by May 12, to proceed to the occupation of the Valley of the Ruhr and to take all other military and naval measures that may be required. Such occupation will continue so long as Germany fails to comply with the conditions summarized in par. (c).

(Signed) HENRI JASPAR
A. BRIAND
D. LLOYD GEORGE
C. SFORZA
HAYASHI.

This note was accompanied by the text of the Schedule of Payments drawn up by the Reparation Commission after the examination of the claims of the creditor states discussed above. During the meeting of the Supreme Council which resulted in the ultimatum the sum of 200,000,000,000 gold marks was discussed as the minimum acceptable to the creditors. The Reparation Commission set the figure at 132,000,000,000 gold marks gross. (Both sums omit interest additions.) The acceptance of the commission's reduction of claims without a murmur by the Supreme Council marks the end of the exclusively political period of the reparation question. From that time forward the commission has found increasing opportunity to apply economic principles to the problem. The Schedule of Payments of May 5, which is the fundamental document of the problem, is printed in the appendix for convenience of reference.

A week followed in which expectation, fear and hope that Germany would refuse the terms were universally discussed. The question was set at rest by the German reply, which was as follows:

THE GERMAN AMBASSADOR TO THE SUPREME COUNCIL¹

LONDON, May 11, 1921.

Mr. Prime Minister,—

In accordance with instructions just received I am commanded by my Government, in accordance with the decision of the Reichstag with refer-

¹For an account by Herr Stresemann of the negotiations within the German Government resulting in the dispatching of this note see *Le Temps*, 10 août 1921, p. 4.

ence to the resolutions of the Allied Powers of May 5, 1921, in the name of the new German Government, to declare the following:

The German Government has resolved:

1. To carry out without reserve or condition their obligations as defined by the Reparation Commission.
2. To accept and carry out without reserve or condition the guaranties in respect of those obligations prescribed by the Reparation Commission.
3. To carry out without reserve or delay the measures of military, naval and aerial disarmament, notified to the German Government by the Allied Powers in their note of January 29, 1921. Those overdue now to be completed at once; the remainder by the prescribed dates.
4. To carry out without reserve or delay the trial of the war criminals, and to execute the other unfulfilled portions of the treaty referred to in the first paragraph of the note of the Allied Governments of May 5.

I ask the Allied Powers to take note immediately of this declaration.

STHAMER.

A vote of confidence in the Briand Government was passed by the French Chamber on May 26 after five days of debate by a vote of 403 to 163. The vote selected by the premier laid down that the ultimatum of London and the figures of the Reparation Commission represented the minimum of guaranties indispensable to French security and recovery and expressed confidence in the Government to carry out immediately the ultimatum terms in case of default by Germany. In the Senate on May 31 the premier won by a vote of 269 to 8 on a motion to refer the Schedule of Payments and ultimatum to the finance and foreign affairs committees for report as to whether they conformed to the treaty. In Germany the Wirth Government, after accepting the ultimatum, announced a program of fulfillment, which became the subject of an interpellation. Confidence was voted in the Government by the Reichstag on June 4 by a vote of 213 to 77.

V. THE ECONOMICS OF CASH PAYMENTS

Having examined the bill and the accounts paid and having followed the method adopted for fixing the liability of debtor states under the treaties, the more strictly economic phases of reparation remain to be considered.

Primarily, reparation is a foreign payment, and it is fundamental that the transfer of wealth from country to country can take place only if and when the debtor country has a trade balance, or a surplus of goods. Normally a favorable trade balance involves either the shipment of gold by the debtor or the investment by the creditor of that balance in the debtor country. The total gold supply of the world nearly equals the reparation debt as now fixed by the Schedule of Payments; it is obvious that no single country like Germany could come anywhere near securing annually for 30 years some 3% of that gold supply for export. By the treaty provisions all external wealth of the defeated states was relinquished to the reparation account, where it is to this day very incompletely credited. Payment by the export of commodities was hampered by general treaty provisions restricting ex-enemy foreign trade and by "anti-dumping" legislation. The treaty makers got this far, concluded that payment must be both in cash and kind, laid down general provisions to meet the conclusion, and left the rest to the future.

Creditor states, except for commodities specified by treaty, at first practically refused to accept payment in kind and demanded payment in cash on the supposition that it entailed no difficulties. It was some two years after reparation was operating that the opportunity offered to test this theory.

THE STORY OF A BILLION GOLD MARKS

The payment of the 20 billion gold marks to be made by Art. 235 before May 1, 1921, engendered a minor crisis. On March 4, 1920, the commission raised the subject with Germany, proposing that she use for that purpose various neutral funds possessed by the German Government, the German states and German nationals, following this on June 15 with an insistence that Germany state what liquid funds were possessed by the Government for use against the obligation. The German Government on June 23

announced that it would address a subsequent communication to the commission, the memorandum being dated January 20, 1921, and consisting of the schedule and valuation of the deliveries made by Germany to date, which she requested should be credited to the reparation account. The schedule claimed deliveries amounting to 21,000,000,000 gold marks as previously given in detail.

On February 26, 1921, the commission informed Germany that the "payments made and to be made up to May 1, 1921, attributable to the sum of 20 billions of marks gold scarcely amounted to 8 billions of marks gold." The commission demanded that Germany present observations as to how the remaining 12 billions should be paid. On March 14, the German Government in reply considered that it had "fulfilled its engagements under Art. 235." On March 15, the commission notified the German Government that it must meet immediately the obligation of 20 billions of marks and must turn over before March 23 a first payment of 1 billion marks on account. As to the remaining sum the commission would hear the Germans up to April 1.¹

"The essential points of the question as they appear from the correspondence exchanged," said the commission's note of May 3, "may be briefly set forth as follows:

"1. On February 26 the commission informed the Kriegslastenkommission that as to the situation at that time, the account to be drawn up in accordance with Art. 235 could not fail to show a deficit of at least 12 milliard marks gold on the payment due by Germany on May 1, 1921;

"2. On March 15, the commission officially recalled to Germany its obligation to make up this deficit of at least 12 milliards before May 1, 1921 and in addition demanded as a first payment on account of 1,000,000,000 gold before March 23, 1921;

"3. The Kriegslastenkommission having replied on March 22 declaring objection to the demand of the Reparation Commission, the latter on March 24 formally notified the German Government that it had failed in one of the obligations imposed on it by the treaty. A notification of this failure was simultaneously sent to each of the interested powers in conformity with the provisions Part VIII, Annex II, 17, of the treaty;

¹*Le Temps*, March 17, 1921, p. 4.

"4. On April 18 the Commission proposed that the metallic reserve of the Reichsbank be deposited in the branches of Reichsbank at Cologne or at Coblenz. This reserve was to form a pledge for the execution by Germany of the obligations imposed on her by Art. 235;

"5. The Kriegslastenkommission having refused to agree to this proposition by its letter of April 22, 1921, the commission by letter of April 25 demanded that Germany deliver to the Banque de France not later than April 30 the sum of 1 milliard of marks gold."

Germany replied on April 29 in a note which contained the following statements:

The German Government desires to set forth once again that, according to the spirit and letter of the treaty of peace, the obligations devolving upon it under Art. 235, under reserve of the right of the commission to fix the times of special payments, can not in practice be regarded as an integral part of the whole obligation of reparation. In its memorandum of April 24, 1921, the publication of which crossed the Reparation Commission's note dated April 25, the German Government, having in view a solution of the whole problem of reparation, submitted proposals to the American Government by which in substance it gave satisfaction to the previous demand of the Reparation Commission. Among other things those proposals contain the following offer:

Germany declares herself ready to put immediately at the disposal of the Reparation Commission a sum of 1 milliard marks gold in the following form:

(a) 150 million marks gold in gold, silver and specie;

(b) 850 million marks gold in treasury drafts to be paid at the latest within three months in coin of foreign currencies.

Further, in conformity with the notification on this subject in the note of the Kriegslastenkommission dated April 22, 1921, the project of law hereto annexed¹ has in the meantime been voted by the National Assembly of Germany, a project which will become law before May 1, 1921.

This is why the German Government believes that there can be no question of maintaining the demand contained in the note of the Reparation Commission dated April 25, 1921, for the delivery to the Reparation Commission in the vaults of the Banque de France of the sum of 1 milliard marks gold, a requirement concerning which the German Government wishes to refrain from showing again its unrealizable character legally and practically.

¹The substance of the law referred to prohibits and makes dealing in gold a criminal offense.

The commission delayed till May 3 and then forwarded a note which, besides containing the summary of correspondence printed above, announced a formal default. The commission said:

We have the honor to refer to the letters of February 26, March 10, 14, 15, 22 and 24, April 18, 22, 25 and 29 exchanged between the Reparation Commission and the Kriegslastenkommission, relative to the obligation imposed on Germany by Art. 235 of the treaty of Versailles to pay the equivalent of 20 milliard marks gold before May 1, 1921; against which was to be charged the cost of the armies of occupation and the expenses authorized for furnishing foodstuffs and raw material to Germany.

May 1 having passed, the commission is obliged formally to draw the attention of the German Government to the fact that it has not fulfilled the obligations imposed on it by Art. 235 of the treaty of peace. . . .

6. The reply of the Kriegslastenkommission of April 29 is only intended to make delay and the demand of the commission remains unexecuted.

Consequently the commission declares that Germany has failed in the obligation incumbent on her by virtue of Art. 235 of the treaty, the failure being for the sum of at least 12 milliards.

The commission forthwith makes this failure known to all the interested powers in conformity with the provisions of Part VIII, Annex II, 17, of the treaty.

HOW PAYMENT WAS MADE

This was one of the bases of the Supreme Council note of May 5. The German method of paying the billion gold marks was incorporated into Art. V of the Schedule of Payments for the initial payment under it. The economic effect of this payment is a landmark in reparation history. A communiqué of July 20, 1921, stated:

The present situation respecting the execution of the said article is as follows:

	<i>Gold marks (provisional)</i>
Three-month drafts remitted in May . . .	839,573,000
Specie deliveries, to complete	160,427,000

Germany has to date delivered for amortizing drafts the sum of 114,949,690 marks gold, including the delivery of \$1 million marks gold just effected, which brings the total of specie deliveries since May up to 160,427,000 marks gold, plus 114,949,690 marks gold, or 275,376,690 marks gold.

The payment of May 15 consisted of \$11,675,000, £3,500,000, 2,000,000 French francs, 2,000,000 Dutch florins, 6,500,000 Danish crowns, 3,000,000 Swedish crowns, 3,500,000 Norwegian crowns, 8,500,000 Spanish pesetas and 10,000,000 gold marks, a total of 160,427,000 gold marks in value. On May 19 sterling was quoted at \$4.00 $\frac{1}{4}$ in New York; on May 23 it broke to \$3.94 $\frac{7}{8}$ and was gradually forced down to \$3.88 $\frac{3}{4}$ on May 31. Paris dispatches of May 30 reported that the payment of one billion gold marks had been completed by the delivery to the Reparation Commission of 20 3-month German Treasury notes of \$10,000,000 each. The last statement is interesting, because, though it is scarcely true, it depressed exchange. The transaction was really the delivery of debenture bonds. The second actual payment was 50 million gold marks in dollars about June 6. In New York, sterling was gradually forced down till, on June 6, it reached a figure of \$3.77 and on June 9, \$3.73 $\frac{1}{4}$. Newspaper comments were to the effect that sterling was yielding under sales by Germany on reparation account.

The dollar rose and the protest from business interests everywhere was so sharp that on June 25 "in order to avoid disturbances in the course of exchange, the Reparation Commission agreed that the deliveries of Germany, for the month of June [and July], should be effected not in dollars but in European monies." The market continued to drop and sterling at New York went as low as \$3.54 $\frac{3}{8}$.

The third payment, 44 million marks in French and Belgian francs, pounds, dollars, lire and florins, of June 28, had a slight effect on a dropping market. A fourth payment, 31 million marks, of July 29 had a sharp temporary effect. Subsequent funds were secured in Amsterdam by Germany, the creditor states assuming the "risks of exchange with reference to specified monies and for quantities of them."

The market effect of these payments created an uneasiness in all quarters, which was not lessened by erroneous reports in November, 1921, confusing the delivery of Series B and C bonds to the commission with the actual turning over of cash. This impression was heightened by the actual payment on November 15 of the first quota of 26% of export values, which covered the quarter May 1 to July 31, 1921, and amounted to about

310,000,000 marks gold. Deliveries in kind by Germany for that period amounted to about 151,000,000 gold marks.¹

SUBSEQUENT PAYMENTS

Cash payments up to this time had proved so disturbing that it was decided not to consolidate future payments. The commission worked out a plan for monthly deliveries of cash on account, thinking that such short periodicity would ease the situation respecting both the cash quarterly payments and the quarterly export quota payments. Accordingly, the Committee of Guaranties prescribed guaranty payments made up partially of receipts from German customs and partially from the levy of 26% on the German exports. The first of these guaranty payments was made as of November 15, 1921, and amounted to 45,000,000 marks gold obtained by conversion from German customs dues levied between October 15 and November 14.²

By early December, Germany was short 270,000,000 gold marks on the 500,000,000 due January 15, 1922. The commission very carefully refrained from attempting to impose a transfer of Reichsbank gold reserve, although the preceding April they had thought well enough of that idea to make it the subject of two declarations of default. Meantime in December Germany began negotiations for a cash moratorium, during which, without relation to the strict provisions of the Schedule of Payments, the following sums in cash have been turned over on account of the Schedule of Payments and moratorium obligations:

	<i>Gold marks</i>
January 7	35,000,000 ³
January 15, quarterly quota	100,000,000 ³
January 18, 23, February 7, 17, 27, March 9 and 19, seven decadary payments of 31,000,000 each	217,000,000 ³
April 15	18,051,079.51
May 15	50,000,000
June 15	50,000,000
July 15	50,000,000
	<hr/>
	520,051,079.51

¹*Le Temps*, October 2, 1921. ²*Le Temps*, November 18, 1921.

³Of these three sums a total of 281,948,920.49 gold marks was paid during the year 1922. The remainder, 70,000,000 gold marks, was turned over after November 15, 1921, in various forms.

CASH FROM CREDITOR'S IMPORT TRADE

On the whole, the only stable element in reparation payments during this period seems to have been the British German Reparation Recovery Act, which went into force on April 1, 1921, as a result of the ultimatum of March 3. This scheme, originally objected to, was accepted by Germany then, and seems to have worked without a hitch, yielding a steady though small return. France, Belgium and Rumania also have laws to the same effect, but have not operated them. The substance of the British law is:¹

Clause 1. That 50% of what is due for German goods, or such percentage as the Treasury may prescribe,² shall be paid, not to Germany, but to the Treasury through the customs on account of German reparation.

Clause 2. German goods are defined as (a) goods first consigned from Germany,³ and (b) goods consigned from elsewhere, of which less than 25 per cent of the value is attributable to production outside Germany. But the act is not to apply to trans-shipment goods.

Clause 3. (i) The value of the goods for the purposes of the act is to be f. o. b. value; (ii) but, in the case of goods consigned to Germany to have a process to be performed upon them, the act is to apply only to the increased value resulting from that process; (iii) in addition, it is provided in this clause that when a person would be out of pocket on account of an advance made, because he did not retain the full proceeds of the goods sent here against such advance he should be allowed to deduct from the sum payable to the commissioners of customs the amount necessary to prevent his being so out of pocket; (iv) provision is also made in this clause for the settlement of disputes as to value; and (v) for the furnishing of certificates of origin.

¹*Commerces Reports*, April 1, 1921; for text of French bill see *Le Temps*, March 10, 1921.

²The percentage is 26% in accordance with the Schedule of Payments.

³Goods proved to the satisfaction of the British authorities not to have been first consigned from Germany to the United Kingdom are exempt by Order No. 11, May 27, 1921.

VI. THE CASH MORATORIUM NEGOTIATIONS

November 4, 1921, the Reparation Commission, alarmed by the fall of the mark and the many manifestations of brewing reparation trouble, itself started on a visit to Berlin to investigate conditions on the spot. The commission was given every facility for its task, including the lugubrious opinions of many official Germans. On the commission's return there began one of those series of letters in which the commission on its side apparently sought freedom to act. It facilitated the German Government's effort to seek a loan at that time in London for meeting the next payments, so that it had in a sense accepted Germany's inability to pay before the correspondence began. The commission sent the following note on December 2:

The Reparation Commission reminds the German Government of the oral declarations which it made to the Chancellor in the course of its visit to Berlin, which may be summarized as follows:

(1) The Reparation Commission, having taken cognizance of the labors of the Committee of Guaranties, and having heard the explanations offered by the German Chancellor and his representatives of the measures which the German Government has adopted or proposes to adopt with the view of assuring the payment of the instalments due on January 15 and February 15 next, urgently requests the German Government to give its full attention to the steps immediately necessary to insure the payment of the said instalments on their due dates. The German Government will thus avoid the grave consequences which would necessarily result for Germany from the nonpayment of the instalments at their due dates. The Reparation Commission strongly urges the German Government to make every possible effort to obtain the necessary amount of foreign exchange, either from its own nationals, who notoriously have such foreign exchange at their disposal, or from foreign lenders.

(2) The Reparation Commission is persuaded that the difficulties encountered by the German Government, difficulties which are closely connected with the recent serious fall in the mark exchange, are of a financial rather than an economic character. They are in great measure due to the fact that the German Government has failed to take timely steps to balance the budget, with the result that public expenditure has in ever-increasing proportion been met by means of credits created in favor of the Government by the Reichsbank and a consequential expansion of the fiduciary note issue. The Reparation Commission strongly urges the German Government to take without delay all the necessary steps to restore the financial situation.

On December 14 the German Chancellor brought up the real question:

Sir,—As I had the honor to explain to the Reparation Commission during its visit to Berlin, the German Government has made every effort to insure the payment of the two instalments shortly due under the terms of the schedule of payments of May, 1921.

In view of the fact that the success of its efforts depended on a foreign loan, and that for a transaction of this nature the active collaboration of British financial circles was absolutely necessary, the German Government opened negotiations in England with a view to this loan.

From competent quarters, however, the reply was received that, as long as the conditions prevailed which at present determined the obligations of the German Government to the Reparation Commission in respect of payments during the coming years, such a loan could not be obtained in England either in the form of a long-dated loan or in the form of a short-dated credit.

Under these circumstances the German Government can not anticipate the possibility of procuring the sum necessary for the total payment of the instalments of January 15 and February 15, 1922.

Even by exerting every effort and without considering the requirements of its own budget, the German Government can not procure for the instalments apart from deliveries in kind and the credit derived from the recovery a sum of more than 150 or 200 million gold marks.

The German Government is, therefore, obliged to request the Reparation Commission to extend the time limit for the payment of the portion of the instalments of January 15 and February 15 which it can not pay at those dates. It confines itself to this request, although it realizes that similar difficulties will arise in connection with subsequent payments.

I have the honor to be, &c. (signed) WIRTH.

COMMISSION REQUESTS INFORMATION

The commission opened up the subject in acknowledging this note on December 16:¹

The Commission can but express its surprise that the Chancellor's letter contains no definite statement as to the currencies in which the German Government would be able to pay at each of the above dates, as to the length of the extension requested for the payment of the balance or as to the security to be offered in the meantime. Unless and until the commission receives definite information on these points it will be impossible

¹London *Times*, December 19, 1921; *Le Temps*, December 18, 1921.

for it to give consideration to, or even to examine, the request of the German Government.

The Reparation Commission regrets to note that the Chancellor's letter makes no allusion to the measures which he has adopted or proposes to adopt in compliance with the views expressed by the commission in its verbal statement of November 13 and in its letter of December 2, 1921. The commission recommends this letter to the particular attention of the Chancellor. (Signed) DUBOIS, JOHN BRADBURY.

At that time Premier Briand was just getting back to Europe from the Washington Conference on Limitation of Armament and Premier Lloyd George, fresh from the Irish settlement, was giving out hints that Europe was going to put on a big peace demonstration as America had done. The two premiers convoked the Supreme Council in England to discuss all outstanding matters. Among these were half a dozen disputes among the Allies respecting the division of German reparation payments made. All were old and most of them had been brought to a settlement at Paris on August 13 in the conference of finance ministers, to which, when initialing the document was in order, the French finance minister announced that he had not full powers to sign. Besides this set of questions there were new ones, chief among which was that of the German cash moratorium, which had just been asked for. The British presented a project covering these questions at London on December 22, which provided for a cash moratorium and settled a number of the other questions. The French took it with mixed feelings, but on the whole tentatively agreed to most of it. The Reparation Commission, with this hint to go on, heard the Kriegslastenkommission on December 29. The Germans were told that the cash moratorium could not be examined until the information asked for in the letter of the 16th was in hand. A week later everybody went to Cannes. The so-called Supreme Council went, all kinds of experts were there, the Reparation Commission went down from Paris, and even the Germans turned up. Cannes as an official gathering learned much about reparation, and for once all parties in interest seemed to agree on what the facts were.

Great Britain was bending every effort to bring the matter into a workable shape. In the aide-mémoire issued by the British Government at Cannes on January 4, 1922, the Anglo-French problem as to reparation was put in these terms:

Great Britain fully recognizes France's ground for anxiety and desires to do all in her power to allay it, but she can not agree to postponing the question of reconstruction of Europe while meeting France's desires in regard to her reparation and her security. In order to give satisfaction to French needs, the British Government must be able to tell the British people that the two countries are marching together to restore the economic structure of Europe and the general prosperity of the world.

With regard to reparation, the British Government are prepared to abide, so far as they are concerned, by the arrangements reached in London under which France will reap considerable advantages, while Great Britain will make considerable sacrifices. They believe this arrangement will meet the essential claims of France until such time as a wider financial settlement has been attained, perhaps in two or three years.¹

PROVISIONAL DELAY GRANTED

Less than a week later the British brought forth at Cannes the proposed alliance with France in the event of a German unprovoked aggression and a revised project for settlement of reparation problems,² including a reiteration of the London idea of reducing the annuity and shifting the incidence of Germany's current burden from payments in cash to those in kind. The essentials of this plan were taken over by the commission on March 21, so need not be set forth in detail.

While things were shaping up, the French nationalists began to bombard Briand at Cannes with parliamentary inquiries and he returned to Paris, to win a vote of confidence in the Chamber and then to resign, on January 13, because he was being "sniped at" from within his own cabinet. Poincaré succeeded him as premier on the 15th.

Just as Briand was resigning, the Reparation Commission reached its decision on the German plea for a moratorium, which it had had under consideration since November. Its decision of January 13, 1922, was:

¹London Times, January 12, 1922, p. 9; Manchester Guardian, Weekly Edition, January 13, p. 25.

²For the texts of the British project of London, December 22, 1921, and the British project of Cannes, January 10, 1922, see *L'Europe Nouvelle*, February 4, 1922, 147-151. For additional documents respecting the discussions at Cannes by the so-called Supreme Council see *ibid.*, January 21, 1922, 75-80.

The Reparation Committee has decided to grant a provisional delay to the German Government for the payment of amounts due on January 15 and February 15, 1922, in so far as these payments are not covered by payments in specie already made or to be made, and by payments in kind or by the proceeds of the Recovery Act received or to be received on the above-mentioned dates—subject to the following conditions:

- (a) During the period of provisional delay the German Government shall pay in approved foreign security the sum of \$1,000,000 marks in gold every 10 days, the first payment to be made on January 18, 1922.
- (b) The German Government shall, within a period of 15 days, submit to the commission a scheme with appropriate guaranties for the reform of its budget and fiduciary circulation, and also a complete program for the payments in specie and the deliveries in kind for the year 1922.
- (c) The period of provisional delay will come to an end as soon as the Reparation Commission or the allied Governments shall have arrived at a decision upon the project and program mentioned in par. (b).

Under reservation of any modification brought about by this decision the difference between the sums actually paid during the period of provisional delay and the sums due during the same period under the Schedule of Payments will fall due and will be paid within 15 days of the date of the decision of the Reparation Commission or of the allied Governments as the case may be. When the scheme and program above referred to have been received by the Reparation Commission, they will be forwarded immediately to the allied Governments, who will thus be in a position either to deal with the matter themselves or to refer it back to the Reparation Commission for solution by that body.

Seven payments were made under that arrangement. The German Chancellor submitted the scheme called for under par. *b* on January 28 and there followed a technical correspondence which resulted in the cash moratorium decision and letter of March 21.

COMMISSION SECURES ITS FREEDOM

While these exchanges were under way, the Reparation Commission, doubtless encouraged by Poincaré's attitude, asserted itself in defense of its rights. On January 30, by a unanimous decision, it requested the allied powers "to adopt for the examination and settlement of reparation questions one of the two follow-

ing methods of procedure: either to decide themselves, and then not to make the commission intervene later; or to remit business to the commission, and then to leave it all the powers given to it by the treaty." On February 2 Premier Poincaré decided that France desired to "apply the treaty, leaving to the commission all its functions."¹ He refused to negotiate the matter with the British. Since that time reparation has advanced to a solution, first by the allied agreement of March 11, second by the commission's decision of March 21, and third by the consideration of an international loan.

The cash moratorium of March 21 resulted from an extensive correspondence in which the commission was so clearly within its rights and its rulings on German contentions so obviously fair that it would only be tedious to give the exchanges, which culminated in the following decisions:

The Reparation Commission,

Having had before it the request for postponement contained in the letter of December 14, 1921, from the German Chancellor, as well as the documents submitted on January 28, 1922, by the German Government in support of this request, in execution of the decision adopted by the Reparation Commission on January 13, 1922, and after giving the German Government a just opportunity of being heard,

Acting in virtue of the powers conferred upon it by Arts. 234, 236, 240, 248 and 251, and by pars. 12, 19, and 19*bis* of Annex II to Part VIII of the treaty of Versailles, as well as of the powers delegated to it by the allied Governments for the execution in their name of Art. 249 of the said treaty,

Considering that the financial situation in which the German Government had allowed itself to become involved makes it impossible for it to discharge in their entirety Germany's obligations for 1922 as set forth in the Schedule of Payments of May 5, 1921, on the one hand, and in Art. 249 of the treaty of Versailles on the other, and at the same time to rehabilitate the finances of the Commonwealth sufficiently to insure the regular discharge of its obligations in subsequent years,

Decides that:

1. Germany shall pay, in 1922, in respect of the Schedule of Payments of May 5, 1921, as well as in respect of Art. 249 of the treaty of Versailles (exclusive of the obligations imposed upon her by Arts. 8 to 12 of the arrangement of June 28, 1919):

¹Documents parlementaires, Sénat, 1922, p. 157.

(a) 720 million gold marks in cash.

The above sum includes the sum of 281,948,920 marks 49 pfennings gold, representing the cash payments already made by Germany toward the instalments required by the Reparation Commission in 1922.

The balance, that is, 438,051,079 marks 51 pfennings gold shall be paid in the following instalments:

18,051,079 marks 51 pfennings gold on April 15, 1922. ¹
50,000,000 gold marks on May 15, 1922. ¹
50,000,000 " " " June 15, 1922. ¹
50,000,000 " " " July 15, 1922. ²
50,000,000 " " " August 15, 1922.
50,000,000 " " " September 15, 1922.
50,000,000 " " " October 15, 1922.
60,000,000 " " " November 15, 1922.
60,000,000 " " " December 15, 1922.

Any sums paid in cash by Germany to the Reparation Commission up to December 15, 1922, inclusive, and any other sums payable in cash to the Reparation Commission which, under the terms of decisions already adopted or to be adopted by the latter, fall to be credited against the annuity liability of Germany for 1922 as laid down by Art. 4 of the Schedule of Payments, shall be deemed to be cash paid toward the above instalments.

(b) In kind: the equivalent in goods of 1,450 million gold marks, of which 950 millions shall be delivered to France and 500 millions 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.

The proceeds of the British "Reparation (Recovery) Act" and of any similar legislation enacted or to be enacted by the other allied Governments in execution of the decision of the allied Governments of March 3, 1921, shall be deemed to be payment in kind.

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 organizations, or by reason of a breach in the procedure of the treaty, or in a procedure approved by the Reparation Commission, additional equivalent cash pay-

¹Paid.

²Paid by \$2,107,397.7 gold marks in cash and 17,892,602.3 in funds not previously credited.

ments shall be exacted from Germany at the end of 1922 in replacement of the deliveries not effected.

II. The payments in kind effected by Germany to a power which is a creditor of Germany in respect of the costs of an army of occupation between May 1, 1921, and December 31, 1922, shall first be charged, to the due amount, with the costs of the armies of occupation during the same period, and only the balance shall be reckoned together with the cash payments as available toward meeting the reparation annuity as laid down by Art. 4 of the Schedule of Payments of May 5, 1921.

III. The difference between the sums due in virtue of the Schedule of Payments and in respect of the armies of occupation and the sums actually paid in 1921 and 1922 shall, together with interest at 5% per annum, remain an obligation upon Germany to be discharged in addition to the annuities under the Schedule of Payments as soon as the Reparation Commission shall consider this within her capacity.

IV. The postponement hereby granted is in the first instance provisional only.

The commission will on May 31 next, examine the progress made by the German Government toward satisfying the conditions laid down in the Reparation Commission's letter of even date and will thereupon confirm or cancel this provisional postponement.

If it is canceled, the amounts provisionally postponed under the decision of January 13, 1922, and under this decision, will become due and shall be paid within 14 days of the date of cancellation, failing which par. 17, Annex II to Part VIII of the treaty shall come into force.

If, however, this provisional postponement is confirmed, and if the Reparation Commission is subsequently satisfied that Germany has failed to carry out the conditions laid down, the postponement will be canceled, and the Schedule of Payments, as communicated to Germany on May 5, 1921, will again come into operation as from the date of cancellation.

CASH MORATORIUM CONFIRMED

Germany replied on April 7 with a list of objections. On the 13th the commission sent a strong reply in which it took up the three principal conditions, explaining its intention respecting them, and closing with a demand for German "co-operation in the measures necessary for the restoration of her economic and financial fabric." Germany replied on May 9 in a conciliatory tone, agreeing to take immediate steps to cover all budgetary expenditure "by receipts from taxation and internal loans not involving monetary inflation." It accepted commission supervision of its financial

policy, and promised to use its best endeavors to comply with other conditions, some of which, however, it held were incapable of fulfillment. Negotiations then began and on May 28 Germany in a final note submitted a program of reducing expenditures and increasing receipts, of coping with the floating debt, of accepting financial supervision, of measures to prevent the flight of capital, of insuring the autonomy of the Reichsbank by a law passed May 25, and of producing satisfactory statistics. The negotiations ended with Decision No. 1976A of the Reparation Commission, dated May 31, as follows:¹

The Reparation Commission has carefully considered the letter of the German Chancellor of May 28, explaining the progress which has already been made and the further steps which the German Government undertakes to take toward satisfying the conditions laid down by the commission in its letters of March 21 and April 13 on the subject of the partial postponement of payments due during 1922 under the schedule of payments.

While regretting that the German Government did not begin to take these steps at an earlier date, and having regard to the explanations given by the German Government, the commission recognizes that the action already taken by the German Government and the further measures which it undertakes constitute a serious effort on its part to meet the commission's requirements.

Accordingly it has decided to confirm the provisional postponement granted on March 21 of a portion of the payments due under the schedule of payments in respect of the year 1922, as from June 1, in accordance with the last paragraph of the commission's decision No. 1,841, of March 21, 1922.

The commission takes note that the details of several of the arrangements proposed for satisfying the conditions laid down by the commission still remain to be worked out by the German Government and the Committee of Guaranties in consultation. It also observes that the proposals for dealing with the floating debt are regarded by the German Government as practicable only in the event of Germany's being able to obtain reasonable assistance by way of a foreign loan.

The Reparation Commission recalls that the postponement now confirmed remains liable to be canceled at any time in accordance with the last paragraph of Decision No. 1,841, if the commission is subsequently satisfied that Germany has failed to carry out the conditions laid down. Without prejudice to the generality of its powers under that paragraph, the commission expressly reserves its right to cancel the postponement if,

¹London Times, June 2, 1922.

at any time, it becomes dissatisfied with the progress made in the settlement of the moneys still outstanding or if, in the event of Germany, through being unable to obtain the desired assistance by way of a foreign loan, failing to carry through the arrangements in regard to the floating debt specified in the Chancellor's letter of May 28, 1922, alternative arrangements satisfactory to the commission are not arrived at for dealing with the budget deficits and the floating debt.

APPEAL FOR DELAY TILL 1924

The present stage of cash payments—a moratorium mortgaging the future—began with a German note of July 12, 1922, which in its essentials recited:

The German Government, in spite of serious economic doubts expressed in its note of January 28 last, has up till now made the payments fixed by the decisions of the Reparation Commission of January 13 and March 21.

Meanwhile, the trend of exchange has taken a turn more and more unfavorable to Germany. In May, 1921, it was necessary to take as a basis for fulfilling German reparation obligations the rate of 60 paper marks to the dollar, while in March, 1922, the rate was 285, and on July 7 it was 500. In view of the fact that, on the basis of the German obligations under the Schedule of Payments of May 5, 1921, a sum of about 2 billion gold marks is to be covered in cash, this sum, if exchange remains at the present figure, would necessitate an internal transaction of 28 billion paper marks in round figures. To make the reduced cash payments of 720,000,000 marks gold under the commission's decision of March 21, a sum of 51.4 billion paper marks would be necessary at the March rate and about 80 billion at the present rate. To this sum is to be added the engagements payable in currency by Germany in fulfilment of the treaty of Versailles, which make a total of 600,000,000 marks gold in round numbers, or 66 billion paper marks.

If the German Government must continue to procure foreign currencies under these circumstances to an extent approaching that which it has had to practice up to now to meet its obligations imposed by the treaty of Versailles, the present depreciation of the paper mark will make quick and irresistible progress and will lead to an overturn of the financial, economic and social life of Germany. The German Government therefore, under present circumstances, finds itself not in condition to continue the payments in cash on the basis of the decision taken by the Reparation Commission.

The German Government, in accordance with Art. 234 of the treaty of Versailles, consequently requests the commission to grant it a suspen-

sion of the sums payable in cash under the above mentioned decision for the year 1922. . . .

In view of the extreme gravity of the present situation it would not be possible for the German Government to establish the equilibrium of social and financial conditions unless it has the help of the Reparation Commission. The German Government does not disguise the fact that re-establishment of mark exchange requires immediate measures whose effect will extend beyond the year 1922; it therefore considers it indispensable that Germany should also be freed from the payments in cash for the years 1923 and 1924 under the Schedule of Payments of May 5, 1921. . . .

The recent depreciation of mark exchange, which began with the ending of the negotiations of the loan committee, renders urgent a provisional settlement of cash payments, since the aid of an external loan is not forthcoming. The German Government consequently requests as prompt a decision as possible on its request for suspension and it hopes that such a decision will be favorable to resumption of the loan negotiations.

Two other points were mentioned in the note. Germany requested a reduction of the payment due July 15 by 17,000,000 marks gold. This was refused in terms and granted in effect by the commission, which credited to the payment that amount of values due to Germany from credits in hand.

The other point referred to in the note was not connected with reparation. Germany stated that she was about to request a remission of payments under the compensation agreements resulting from Part X of the treaty and requested the commission to support this request when made to the Governments. Germany made the request on July 26, and it resulted in a sharp correspondence with France. A British proposal to support it in the Reparation Commission was voted down by the French delegate and the French Government initiated a series of "sanctions" on August 6 as a result of the German failure to meet the stipulated requirements.

CLEARING THE AIR AT LONDON CONFERENCE

The German request was supposed at the time to have created a critical state of affairs, the more so because the French Government had been actively claiming a right of executing sanctions independently and of taking physical guaranties of payment on German territory. British opinion at the time was firmly convinced that it was better to listen to the German plea. A meeting

of the Supreme Council was held in London from August 7 to 14 with the advertised purpose of taking a decision on the matter referred to the Reparation Commission.

At the first meeting M. Poincaré, the French prime minister, asserted that the treaty was being less and less executed, and that France was getting nothing at all. Her recoverable budget expenditures left a budgetary deficit. France regarded her own bad financial condition as part of the bad financial condition of Europe. He felt convinced that further efforts at taxation on the part of France were politically and socially impossible. Germany's condition was due to her own fault. She had inflated her currency without scruple and if France had done the same she would have been ruined. He felt that the proposal made by the Reparation Commission for the control of Germany was still vague, and France was unwilling to grant a moratorium unless "productive guaranties" were given to the Allies.

In reply Premier Lloyd George drew a sharply outlined picture of the difference between French and British taxation and compared the British unemployment burden with the French reconstruction burden. He asserted that the treaty of Versailles had been better executed than M. Poincaré allowed, especially in respect to disarmament. He cited the figures of surrendered material and said that the total "meant that there was absolutely no material in Germany which could possibly enable her to plant a military surprise upon her old enemies." Turning to reparation, he said that, "in spite of the remissions of payment which had been granted to her, Germany had in point of fact made payments up to date amounting in total to £500,000,000 sterling or 10 milliards of gold marks. That was something." He discussed Germany's financial condition and asserted that the statesmen must take into account the condition of German exchange.

Other discussion followed, the most pertinent address being a remark of Baron Hayashi of Japan that "the single object of the Allies should be to get money."

"PRODUCTIVE GUARANTIES" OF FRANCE

M. Poincaré at the close of his speech had presented a definite series of what he defined as "productive guaranties." These consisted of a series of proposals which had been long discussed in

certain French circles where they had acquired a very voluble support. The proposals were referred to an allied committee of experts. This committee studied the proposals and reported upon them as follows:

1. Control by an interallied commission of import and export licenses respecting goods going to or coming from the Rhenish occupied territory—Not likely to produce revenue.

2. Exploitation and eventual alienation of mines and domanial forests in the Ruhr—The experts other than the French were of the opinion that these would prove guaranties for the delivery of materials, rather than a financial guaranty of realizable value.

3. Levy of 60% on the capital of dye works on the left bank of the Rhine—The experts other than the French were of the opinion that this suggestion was at present impracticable.

4 (a). Collection of customs duties on the western frontier of Germany (left bank of Rhine)—The experts other than the French recognized that the product of these duties was part of the customs receipts levied by the Commonwealth, as defined in the Schedule of Payments, and that there was no occasion to deal with them separately.

4 (b). Customs boundary on the Rhine—The experts other than the French felt that establishing an interior customs line in Germany would hamper economic life, was a coercive measure not of temporary character, and could only with difficulty constitute a guaranty for an important financial operation.

4 (c). Customs cordon around the Ruhr Basin—The experts other than the French believed that the application of this guaranty could not be contemplated at present because it was of a character to diminish Germany's capacity for paying reparation.

5. Levy of 25% on German export values and levy on customs receipts—The experts other than the French were of the opinion that these proposals were, in view of action already taken, superfluous; and that the inconveniences resulting from them would more than counterbalance the receipts.

The British Government submitted a program under ten heads, only three of which were acceptable to France.

France, in an effort to secure a decision acceptable to all concerned, submitted a proposal which constituted a remarkable concession from any attitude she had previously taken respecting

reparation. This project considered that the reparation debt on August 1 amounted to 120,000,000,000 gold marks. Of this sum 50,000,000,000 was to have absolute priority, carrying interest at 5% and sinking fund at 2% from August 1, amortizing in 25 years. Discounts would be granted for four years to encourage loan operations. "The debt constituted by the second section, 70,000,000,000 marks, was to be annulled gradually according to payments effected by Germany on the first section, and annulments of interallied debts which would be reciprocally made." As to this second section, they would content themselves by adopting conditions applied by the United States to themselves in respect of credits owed to the United States.

COMMISSION TAKES HOLD AND DECIDES

The attitude of the United States toward the Balfour note on interallied debts made it impossible to go forward with the consideration of this constructive plan, and the Supreme Council accordingly adjourned. Meanwhile, the Reparation Commission, from whom the discussion of the cash moratorium had been taken by the Supreme Council, had to send word to Germany that it was still unable to announce a decision on the matter and the question of paying the August 15 quota would remain in suspense until a decision could be taken. Sir John Bradbury of the commission and M. Mauclère, president of the Committee of Guaranties, went to Berlin to study the matter on the spot and after their return Germany's Minister of Finance, F. Schroeder, appeared before the commission in two long sessions. Newspaper tension ran high, accompanied by the usual speculation as to whether France would block the commission by refusing to yield to majority opinion and whether she would attempt to collect for herself independently. A great many more angles of the subject were publicly discussed than were officially considered.

The solution was found by Belgium's assertion of her claim to priority under the financial agreement of March 11. The decision of the commission, rendered on August 31, reads:

The Reparation Commission has the honor to communicate herewith to the German Government its decision No. 2119, in reply to the letter addressed to it by the Chancellor of the Commonwealth on July 12 last. Considering that the Reparation Commission has not believed that it

should grant the moratorium asked by the German Government, it does not regard it as timely to pronounce upon the proposals brought before it by the German Government, which are of a character to insure the strict execution of deliveries of coal and lumber laid down by the Reparation Commission.

The Reparation Commission, however, reserves the right to demand the putting into effect of arrangements similar to those proposed by the German Government if in the future deliveries of coal and lumber are not satisfactorily made.

The Reparation Commission, after examining the new request for a moratorium of July 12, 1922;

Taking into account the fact that the Commonwealth has lost all credit both internal and external and that the mark has depreciated continuously down to .003 of its normal value;

Decides:

1. That it defers its decision on the request of the German Government until the commission has completed its scheme for a radical reform of German public finances, including:

a. Balancing of the budget;

b. In the event of the Governments represented on the Reparation Commission giving their assent thereto in advance, reduction of Germany's external obligations in so far as they shall be deemed necessary for the restoration of her credit;

c. Currency reform;

d. The issue of internal and foreign loans in order to consolidate the financial situation;

2. With a view to giving time for the preparation and carrying out of the measures referred to under par. 1 above, the Reparation Commission will accept in payment of the cash instalments falling due August 15 and September 15, 1922, and, unless other arrangements are made in the meantime, of the subsequent cash instalments falling due between October 15 and December 15, 1922, German treasury bonds payable in six months in gold and guaranteed in such manner as may be agreed upon between the German and Belgian Governments, to which latter the payments have been assigned, or in default of such agreement by a deposit of gold in a foreign bank approved by Belgium.

Belgium immediately got in touch with Germany, and the German treasury officials got in touch with British and other foreign financial groups. Promptly arrangements were made and on September 25 Belgium received through the commission the German treasury bills to cover the August and September payments, which were discountable in the world's financial markets.

VII. PAYMENT IN KIND SPECIFIED BY TREATY: SHIPPING AND COAL

Payment in cash has resulted in unforeseen difficulties, which came to a critical point in a very short time. Payment in kind has a longer and a more complicated history, which can only be summarized, with special emphasis upon its latest and probably permanent phase.

It was the theory of the treaty that certain resources of Germany and her former allies should be definitely allocated to the payment of reparation. Commodities of which they possessed a surplus for national needs, or which were lacking in the victorious states as a result of the war, were deemed especially appropriate for the payment of reparation, as well as particularly meeting the normal conditions of world trade, of which reparation would of necessity be a part. The annexes to the reparation parts of the treaties therefore specify some two dozen commodities to be turned over in kind. The principal ones were shipping and coal, for which the requirements were supposed in 1919 to be insatiable. Experience respecting them is part of the essential history of reparation, and it has accounted in no small degree for the change of attitude toward the problem which has taken place.

1. PAYMENT BY MEANS OF SHIPPING

Shipping losses represented a typical—perhaps the most heinous—war injury, involving in the postwar period a surprising, but yet typical, change of expert attitude. Political interference occurred at the outset. The shipbuilding program under reparation is practically inoperative. Annex III, 5, c, of Part VIII of the treaty provides that “the amount of tonnage to be laid down in each year shall not exceed 200,000 tons gross.” The reparation states have foregone that demand for three years from April 10, 1922,¹ during which they are requiring from Germany only 40,000 tons annually, and only a fourth of that has been ordered, by France.

When the treaty went into force on January 10, 1920, the reparation states were in possession of about 3,900,000 tons of German shipping, of which 1,800,000 tons represented warlike seizures

¹Parliamentary question, March 21, 1922.

which by Art. XXX of the armistice and Art. 250 of the treaty were retainable without credit. The creditor states first set about the detail of squaring their own accounts with each other respecting the 2,100,000 tons of this German shipping for which reparation credit must be given. Action by the Reparation Commission was neither awaited nor requested by the states.

At the San Remo, Hythe, Boulogne and Spa meetings of the so-called Supreme Council of the Allies, the shipping question was discussed. The Spa agreement of July, 1920, dealt with shipping in essentials as follows:

ART. 6. (1) Germany, by Annex III of Part VIII (Reparation) of the treaty of Versailles, and Austria and Hungary, by the corresponding provisions of the treaty of St. Germain and the treaty of Trianon, having recognized the right of the Allied and Associated Powers to the replacement, ton for ton and class for class, of all merchant ships and fishing boats lost or damaged owing to the war, and in view of the great difficulty of fixing a fair value for the ships surrendered except after the actual sale of the greater portion of such ships, it is agreed as follows:

The sale of the ships allotted to the British Empire shall be made before May 1, 1921, by the Reparation Commission on the British market and shall be made to British nationals.

The amount to be credited to the ex-enemy powers and debited to the British Empire in respect of merchant vessels and fishing craft allotted to it, or subsequently transferred to it under interallied agreements, shall, subject to adjustments rendered necessary by repairs or the expenses of delivery be the actual price realized by such sales.

In the case of other powers, the amount to be debited in respect of merchant vessels and fishing craft allotted to them, or subsequently transferred to them under interallied agreements, shall be the average amounts, subject to similar adjustments, realized by the sale of similar ships of each class on the British market. . . .

(2) No charge shall be debited to any allied power to which ships have been allotted for the use of such ships after the coming into force of the several treaties of peace.

(3) In the case of ships transferred, the hire of such ships, until transferred, shall be paid over to the transferring power by the power to which ships are transferred. . . .

(4) After the final allotment of tonnage by the Reparation Commission, there shall be transferred to Belgium out of the shares of the other powers sharing in the distribution of tonnage, such an amount of tonnage as will make up her ton-for-ton allotment to a total equivalent to the ton-

nage of the vessels condemned after the armistice in the Belgian prize court. . . .

The condemnation of the above vessels in the Belgian prize court not being recognized by the allied powers, Belgium, while maintaining the validity of these decisions, agrees, in consideration of the tonnage transferred to her under this paragraph (4), not to claim any interest in these vessels by reason of their condemnation. .

Commission Corrects Undervaluation

The Reparation Commission declined to accept this arrangement as its basis of operation, and therefore two methods in respect to reparation shipping took form.

The point of valuation may well claim first attention. For the sake of ready comparison value per average ton has been added to the figures about to be recited. An official American compilation¹ reports a tonnage loss of 11,925,000 by the victorious belligerents. Lord Lee of Fareham, British First Lord of the Admiralty, in discussing submarines at the fifth meeting of the Committee on Limitation of Armament at the Washington Conference on December 22, 1921, stated: "No less than 12,000,000 tons of shipping had been sunk, of a value of \$1,100,000,000, apart from their cargoes." Lord Lee's figure indicates an average value of nearly \$92 (380 gold marks) per ton. A British tabulation made late in 1920 showed losses for which Great Britain was liable of 8,517,515 gross tons, valued at £584,716,000, or £68 13s. (\$333.60) per ton, inclusive of cargo value.

The unrevised claims of the powers in respect to maritime damage announced by the Reparation Commission as of February 12, 1921, are given as

France	5,009,618,722 paper francs	=	1,517,914,473 gold marks
Great Britain	£763,000,000	}	= 12,502,100,000 " "
river shipping	4,000,000		
Italy	£128,000,000	=	2,086,400,000 " "
Belgium	180,708,250 Belgian francs	=	54,754,600 " "
			16,161,169,073 gold marks

(Exchange of February 12, 1921: pound sterling, \$3.885; French and Belgian francs, \$0.07225; gold mark, \$0.23821.)

¹Leonard P. Ayres, *War with Germany: A Statistical Summary*, 2d ed., 146.

These items form part of claims which, by the Schedule of Payments of May 5, 1921, were reduced 34%. Applying this percentage to the above figure we have effective claims against Germany on account of shipping amounting to 10,666,371,588 gold marks, or 889 gold marks per ton. Some allowance must, however, be made for cargo loss in the claims. With cargo figured at four-sevenths of the ship value—which seems to be the ratio adopted by shipping interests in this respect—the 12,000,000 tonnage lost would amount to 4,587,539,907, or 382 gold marks per ton, a figure which corresponds practically with the value given by Lord Lee of Fareham. It consequently appears that the Reparation Commission by the exercise of its proper authority cut the proportional shipping obligation of Germany to correspond with the facts.

The 1920 situation respecting shipping was highly unsatisfactory from an economic point of view. The bottoms to be credited were in the hands of various allied powers and the United States and were being disposed of at such prices as the controllers saw fit, though the Reparation Commission was empowered finally to confirm all titles and all prices, and furthermore had the duty of establishing a complete statement of accounts before May 1, 1921. That crucial date passed without the commission being able either to certify tonnage delivered or to appraise it equitably. Nearly four months later the commission sharply revised the statements on which the reparation states had stood at that time.

The Reparation Commission at its 222d session fixed the gross tonnage delivered up to May 1 as follows: passenger vessels, 611,327; cargo vessels, 1,452,191; sailing vessels, 80,140; fishing vessels, 9,749; or a total of 2,153,407 gross tons. This shipping was credited by the creditor states themselves in April, 1921, at 270,331,000 gold marks, or 125 gold marks per ton. "The sales effected on these bases of the Spa agreement had been at about £8, that is, 160 marks gold per ton," says the communiqué of the commission of September 24, 1921. "But the Spa agreement has not been recognized by the Reparation Commission, which has proceeded with the equitable appraisal of the value of the ships delivered by Germany, at the date of delivery. It has therefore determined the price per ton of each category of ships, and the total with which Germany is credited up to May 1, as a result of turning over commercial vessels, has been fixed at 745,000,000

marks gold." From this sum are deductible certain expenses of delivery, repair and handling. The mean price per ton thus awarded is 346 marks gold. Germany was therefore credited with 474,669,000 gold marks (221 per ton) in September for shipping deliveries before May. This valuation did not include certain ships delivered before May 1, 1921, for which a value of 4,458,000 gold marks additional is suggested. Therefore, up to 1922, 2,350,666 tons of shipping had been delivered, credited at 753,894,468 gold marks (322 per ton). At the rate cited by Lord Lee at Washington the value would have been about 961,653,000 gold marks; at the rate of the original credits the value would have been 376,106,560.

On December 15, 1921, the commission announced that at its 243d session it had fixed the value of ships delivered subsequently to May 1, the communiqué saying: "The tonnage delivered since May 1 is divided as follows: passenger ships, 1,894 tons, cargo vessels, 100,146 tons, sailing ships, 95,153 tons, fishing boats, 56 tons, total, 197,249 tons. The commission has decided that the sum to be credited to Germany on account of these ships will be 10,244,468 marks gold, less expenses of delivery, repair and sale," a net of 8,804,468 gold marks.

On August 13, 1920, the British Board of Trade proposed a method of disposing of ships and on August 27 the Maritime Service of the Reparation Commission accepted an arrangement whereby Lord Inchcape was to take charge of liquidating the marine property in the hands of Britain. The final report, published in February, 1922, showed that 418 ships were sold for £20,076,216 7s. 9d. Passenger steamers, sailing vessels and trawlers together numbered 94, having a gross tonnage of 606,666, while 324 cargo steamers showed deadweight tonnage of 1,923,350, or a total tonnage of 2,530,016. Turned into gold marks for comparison (20.4 marks per pound sterling), the total transaction shows receipts of 409,554,806 gold marks, or 161 per ton. As already stated the Reparation Commission has credited shipping to Germany at double the indicated receipts and has approached the tonnage value placed by the Allies upon their losses.

From these details it appears that the Reparation Commission is following a principle of crediting Germany with a fair value of deliveries, irrespective of what the commodities may be assumed to be worth by the creditor states. These states signed an agree-

ment on March 11 at Paris which recognizes and adopts the principle laid down by the commission in connection with shipping. By this agreement any difference between amounts credited to Germany and amounts debited to an allied power is to be met by the cancellation of Series C bonds, which are not yet issued and will not be until the Reparation Commission so decides. The finance minister's plan is to defer the differential credit. It will be interesting to see whether the Reparation Commission accepts this arrangement or whether it will insist on full credit being given in bonds of the active A and B series.

American Holdings Unaccounted For

So much for the crediting. The inevitable difficulty among the creditor states as to the division of the receipts cropped up in the shipping matter.

In May, 1919, Wilson and Lloyd George formulated an agreement by the terms of which the German ships were to be apportioned according to the ratio of maritime losses by the various Allied and Associated Powers. However, it was stipulated that the different allied nations were entitled to keep ships seized before the armistice. If a single power's share under the percentage division was more than the number of ships it held, that power would receive more ships from the general pool of German ships which had been seized. If the ships seized by any power were more than that power's share, it could keep all it had, but must pay into the reparation pool the value of the shipping over and above its proper share reckoned on the basis of war losses. Later Clemenceau signed an agreement that a power might keep the ships seized, but held off from signing the full Lloyd George-Wilson agreement. Italy and Japan gave their assent, and that of France was all that was needed to settle the whole matter.

In December, 1919, the French ministry alleged that Britain had made a secret agreement with Italy under which Italy was to have full repayment of her maritime losses. The French immediately demanded full repayment of their 910,000 tons of losses. In December, 1920, Britain yielded to France, which thus got tonnage which would have contributed toward making up the tremendous English losses. France retained all ex-German ship-

ping temporarily allotted to her for management after the conclusion of the armistice. By an agreement concluded in April, 1920, further shipping, representing about 150,000 tons, was definitely allotted to her, and by the further agreement of December, 1920, she retained shipping representing about 100,000 tons, making her total receipts of ex-German tonnage about 450,000 tons.

German shipping sequestered by the United States is still outstanding and entirely unaccounted for. This material represents one of the chief irregularities of the whole reparation situation.

The shipping sequestered by the United States originally amounted to some 600,000 tons, practically all first-class liners. The attrition of use has reduced the amount to about half of the original figure. German shipping was taken over under act of Congress and in the negotiations held on the matter it has been uniformly regarded as necessary for Congress to enable the Government to make any change from the existing condition. American sequestrations were in excess of losses, so that by the principles agreed upon the United States should both make payment for that excess and report the values to be credited to Germany. When in the spring of 1921 Germany was trying to establish with the commission the amount of her payments under the bonds then running she figured into the shipping delivered the tonnage held by the United States. Washington let it be known that the Reparation Commission was not to include the American holdings, so that in the first instance Germany was not credited with them. The tonnage was accordingly deducted from the deliveries credited to Germany. On the basis adopted by the Reparation Commission the shipping in the hands of the United States would entitle Germany to a credit of perhaps 100,000,000 gold marks.

Deliveries of River Craft

Another phase of the shipping side of reparation was the delivery of river craft to make up either for losses sustained during the war or to provide states made riverain by the provisions of the treaty with vessels for commercial purposes. By Arts. 339 and 357 of the treaty Germany is obligated to deliver tugs and vessels registered in ports of specified sections of the Elbe, Vltava, Oder, Niemen, Danube, and the Rhine. This shipping was determined

equitably by an American arbitrator, a position filled acceptably by Walker D. Hines.

The Reparation Commission issued a statement on February 14, 1921, respecting reparation with regard to river fleets under Part VIII, Annex III, 6, and the operations under Arts. 339 and 357. The commission had begun work on this matter in the spring of 1920. The allied losses were reported at different times and the German inventory received late in the fall. It was found that the 20% of river shipping assigned to reparation by the treaty, on the basis of the German inventory, exceeded the total of losses claimed against it. The approximate total of losses to be compensated as reparation were notified to Walker D. Hines as arbiter in December, 1920, subject to additions by the powers up to March 2, 1921. The Reparation Commission in September, 1921, certified to the arbiter that the losses to be compensated amounted to 850,000 tons of tugs and other units of all kinds representing about 11,500 horsepower. Of these totals, states were entitled to percentages as follows: France 61.6%, Belgium 34.7%, Italy 3.3%, Portugal .4%. The arbitrator had established the list of German vessels to be delivered and a commission to receive them was set up at Duisburg, Ruhrort. On the account of reparation Germany had entered into agreements with France and Belgium to construct new boats to meet the conditions of French and Belgian waterways, the losses being largely of *péniches*, a special type of boat not available in the German craft.

As to the Rhine, Germany was obliged to turn over to France a certain amount of shipping in view of the fact that the recovery of Alsace-Lorraine made France a riverain state. Under the Hines award of January 9, 1921, France received on this account 254,150 tons of barge capacity and 23,760 horsepower of tug capacity, representing about 13.5% of German tonnage on the Rhine.

Rhine shipping and port installations awarded by Mr. Hines to France have been credited at 15,450,000 gold marks. Similarly; credits to Czecho-Slovakia of 8,350,000 gold marks for Elbe shipping and of 338,940 gold marks for Danube shipping have been made.

2. THE TROUBLE OVER COAL

Coal originally was regarded as a principle reparation commodity, with a three-fold effect. First, its delivery, in lieu of the

supplies previously drawn from the Nord and Pas de Calais mines which the Germans had destroyed, was regarded as a particularly legitimate reparation demand. Second, Germany before the war exported coal and reparation requirements of it would have the effect of transmitting normal exports into reparation, thus crippling the commercial resurrection of Germany to the advantage of the Allies. Third, the control over coal was supposed to carry with it a large amount of control over European industry.

The treaty provisions seem to have been based on the German situation in 1913, when 191,500,000 metric tons of coal were produced and 32,800,000 were exported. The treaty options were for the first year:

To France	7,000,000
To France, account of destroyed mines, up to	20,000,000
To Belgium	8,000,000
To Italy	4,500,000
	39,500,000

To Luxemburg is guaranteed "a quantity of coal equal to the prewar annual consumption of German coal," to be paid for by Luxemburg in cash to the commission.

Most of these amounts were to run for 10 years. But the French receipts on account of the destroyed mines were to drop to 8,000,000 tons after five years, while the Italian quantities were to reach 8,500,000 tons in 1923-24 and in the five following years.

The only part of these figures which Germany voluntarily accepted at Paris was the program respecting the French mines, concerning which her representatives declared on May 29, 1919, "Germany is willing to do everything in her power to produce for export to France the amount of coal needed." She also declared herself in accord with the maximum estimate respecting that region as given in the treaty. As to the other amounts demanded it was stated that "it is materially impossible to accord the options." The German experts calculated that in 1919, 15,000,000 tons would be available for export. They offered to make another 5,000,000 tons available by continued rationing, the whole exportable amount to make up the shortage in France due to the destroyed mines. They offered any exportable surplus, supplemented by amounts secured by rationing, effected by a joint commission, to meet the

demands of France, Belgium and Italy. This alternative and lesser proposal was not discussed by the Allies in their reply of June 16, 1919, which was covered by the ultimatum which brought the German peace delegation to sign the treaty of Versailles.

The treaty terms have never been effective. They never will be in full, for the coal deliveries to the Allies, except Italy, have given them almost as much trouble as they have the Germans.

In fact, the treaty was not even ratified by the principal allied powers when the treaty terms, Part VIII, Annex V, 1-7, were modified to meet conditions. The exact significance of the relaxation should, however, be clearly understood at the outset. John Maynard Keynes makes a legal blunder in assuming that the treaty provides for actual deliveries. It does not. It provides for "options"; that is, the creditor states are accorded the right to choose to receive and Germany, in case of that choice, is obligated to provide, the specified amounts. The failure to secure the amounts stated in the treaty was pictured as a default of Germany. The legal phraseology has enabled, in this and numerous other cases, the creditor states to make their inability or unwillingness to get or receive treaty amounts appear as a fault on the part of the debtor. As to coal, the only practical situation was to relax the allied options. Technical investigations on the spot elicited facts as to the underfeeding and decreased efficiency of the German miners which made it impossible for the creditor states to demand a greater production than existed.

The treaty of Versailles was signed on June 28, 1919, and was ratified by Germany within two weeks. It was originally planned to bring it into force on November 11, the anniversary of the armistice, but it did not actually enter into force until January 10, 1920. Creditor states, notably France and Belgium, had ratified it in September or October. Their pressing need of coal at the time and the obvious necessity of Germany paying reparation brought it about that coal deliveries began in September and have continued ever since. According to the treaty the options would yield an average monthly delivery of 3,300,000 tons; but according to the deliveries the average for 22 months from September, 1920, to July, 1921, was 1,260,000 tons,¹ and for the period during which the treaty has been in force about 1,500,000 tons.

¹*Economic Review*, IV, 170, 418.

At present, coal has passed out of the reparation picture as an element of contention. The Reparation Commission every quarter stated the amount of coal—6,600,000 or 6,000,000 or 5,750,000 tons—to be delivered during the next quarter—and then promptly went about real business. Technically Germany has been month by month in default. This situation was remedied on July 21, 1922, by prescribing only 1,725,000 tons per quarter.

Reduction and Short Rations

The coal experience aptly illustrates the extent to which the provisions of the treaty of Versailles on reparation have been changed without the public realizing it. As already pointed out, the coal provisions were options, not requirements. The ink was dry on the signatures to the treaty only two months when on August 29, 1919, the options which totaled 39,500,000 tons were almost cut in half by the following protocol:

Germany shall in the next six months make deliveries corresponding to an annual delivery of 20 million tons as compared with 43 millions as provided in the Peace Treaty.

If Germany's total production exceeds the present level of about 108 millions a year, 60% of the extra production up to 128 millions, shall be delivered to the Entente and 50% of any extra beyond that until the figure provided in the Peace Treaty is reached.

If the total production falls below 108 millions the Entente will examine the situation, after hearing Germany, and take account of it. This basis is only valid, however, if Germany begins deliveries immediately.

It was more than four months later that the treaty went into force, and that period was probably the hardest one of all post-armistice time for Europeans. The Germans held that their miners' physical needs must be taken care of under the agreement to deliver coal, or else the deliveries themselves must become uncertain, dependent upon the food their workers received. Further the Germans said that the food question could not be settled at the treaty price, which is stipulated as "the German pithead price to German nationals, plus the freight," provided the pithead price did not exceed that of British coal for export. German pithead prices have never yet been more than a fraction of even the European price owing to low German exchange. In their struggle

to get a reconsideration of the price factor, the Germans introduced the matter of miners' subsistence. They could not, they said, feed the men adequately for their heavy work on the stipulated price basis of the coal. The protocol to the treaty promised the Germans opportunity to be heard respecting reparation problems. At the San Remo meeting of the Supreme Council in April, 1920, it was agreed to fulfill the promise. The essentials of the coal agreement reached at Spa on July 16 follow:¹

1. The German Government undertake to place at the disposal of the Allies, from August 1, 1920, for the ensuing six months, 2,000,000 tons of coal per month, this figure having been approved by the Reparation Commission.

2. The allied Governments will credit the reparation accounts with the value of this coal as far as it is delivered by rail or inland navigation, and it will be valued at the German internal price in accordance with par. (A), Annex V, Part VIII, of the treaty of Versailles. In addition, in consideration of the admission of the right of the Allies to have coal of specified kind and quality delivered to them, a premium of 5 gold marks, payable in cash by the party taking delivery shall be applied to acquisition of foodstuffs for the German miners. . . .

5. A commission, on which the Germans shall be represented, shall meet forthwith at Essen. Its purpose shall be to seek means by which the conditions of life among the miners with regard to food and clothing can be improved, with a view to the better working of the mines.

6. The allied Governments declare their readiness to make advances to Germany equal in amount to the difference between the price paid under par. 2 above and the export price of German coal, f. o. b. in German ports, or the English export price f. o. b. in English ports, whichever may be the lowest, as laid down in par. VI (B) of Annex V, Part VIII, of the treaty of Versailles. These advances shall be made in accordance with Arts. 235 and 251 of the treaty of Versailles. They shall enjoy an absolute priority over all other allied claims on Germany. The advances shall be made at the end of each month, in accordance with the number of tons delivered and the average f. o. b. price of coal during the period. Advances on accounts shall be made by the Allies at the end of the first month without waiting for exact figures.

7. If, by November 15, 1920, it is ascertained that the total deliveries for August, September and October, 1920, have not reached 6,000,000 tons, the Allies will proceed to the occupation of a further portion of German territory, either the region of the Ruhr or some other.

¹Protocols and Correspondence, No. 194.

Germany's signatories made a reservation as to Art. 7 of the agreement. Nevertheless, the deliveries for August, September and October, 1920, actually attained the figure of 6,116,000 tons, being the only quarter under reparation when coal deliveries exceeded 2,000,000 tons per month. It should be mentioned in passing that the Spa agreement received the approval of the Reichstag on July 29 by an overwhelming majority, being one of the few reparation arrangements which has received Germany's legislative sanction.

Britain had for years had a coaling trade, and she now gave careful attention to the effect of what amounted in practice to a large pauper trade, conducted on a price level well below the normal. It was plain business for Britain to discourage any system that might tend to lower coal values permanently, especially since the English price had for years been the standard for Europe. On August 2, 1920, the House of Commons voted a credit of £5,000,000 for foodstuffs for the German miners. The government bill was accepted without revision and without challenge. The Labor members welcomed the action as a "sensible change in the government policy toward Germany and a practical revision of the unworkable Versailles treaty." Lloyd George said the Spa program was better than sending a large and costly army in to get the commodity, and that coal was even more valuable than gold as payment, even if Germany had the gold. The unfit and ill fed German population must be helped to produce. "There is no doubt about the condition of Germany," he said. "We have impartial representatives there who report the people are not receiving within 60 or 70 per cent. of the food they consumed before the war." In France the government put the program into effect by a law providing for the drawback to be paid to Germany, a law passed without either delay or much discussion. The press then began picturing the excessive imposition of the drawback, and there came a period when apparently it was the general belief, as expressed in print, that France was paying out of her own depleted resources five gold marks per ton more for reparation coal than she would have had to pay for the same coal if there were no reparation system at all. As a matter of fact, the total drawback amounted to 392,000,000 gold marks, charged to the Germans and now liquidated in the general reparation accounts.

Production and Profits

The Spa agreement was for six months, that is, through January, 1921. As the time approached, it was generally agreed that the European coal crisis was past; so it was left for the future to the Reparation Commission. European coal production was practically at normal outside of Germany in 1921, as will be seen from this table:

COAL OUTPUT (In 1,000 tons)				
	1913	1919	1920	1921
Germany:				
Pit coal	176,892 ¹	116,676	131,347	136,210
Pit coal briquettes	6,811 ¹	—	4,938	5,688
Lignite	87,233	9,384	111,634	123,011
Lignite briquettes	21,977	—	24,282	28,243
Coke	35,653 ¹	—	25,177	27,921
France:				
Coal	40,848	22,480	25,270	38,556
Belgium:				
Coal	22,841	18,342	22,412	21,804
Saar Basin:				
Coal	13,217	8,970	9,410	9,574

About three-fourths of reparation coal has gone to France. In two years and a half deliveries have a little more than equaled the options specified for one year by the treaty. German deliveries to France from the armistice to February 28, 1922, amounted to 28,751,900 metric tons classified as follows:

	Metric tons
Under the Luxemburg protocol (Nov. 11, 1918, to Aug. 31, 1919)	4,371,700
Deliveries in execution of the treaty:	
September 1, 1919, to January 10, 1920	2,146,200
January 10, 1920, to December 31, 1920	10,635,900
January 1 to December 31, 1921	10,049,700
January 1 to February 28, 1922	1,548,400

The value of the deliveries to the Luxemburg account has been submitted to arbitration. The 24,380,200 tons to the French account were credited to Germany at a value of 1,489,228,000 paper francs (41 per ton), by periods as follows:

	Francs
September 1, 1919, to December 31, 1920	831,638,000
January 1, 1921, to December 31, 1921	588,577,000
From January to February, 1922	69,013,000

¹Without the Saar district and Lorraine.

The Office des Houillères Sinistrées (Office of Destroyed and Damaged Coal Mines) had sold the coal to French users for 2,633,263,004.68 francs, or 1,146,035,004.68 francs above the price credited to Germany.¹ Against this gross profit, 216,893,926.78 francs was to be charged, showing a net profit of 929,161,077.9 francs, or 88 francs per ton.

The anomalous situation came to exist whereby creditor states had coal for export and Germany itself had not an ample supply. There was also considerable difficulty over the price of water-borne coal. France and Germany, whose coal syndicates had previously been doing business together on reparation account, reached an agreement on these matters at Wiesbaden on October 6, 1921, and the Reparation Commission on April 1, 1922, applied the principles to Belgium and Italy.² The Franco-German agreement provides:³

1. The French and German Governments are in agreement as to the interpretation of Part VIII, Annex V, 6, of the treaty of Versailles in so far as it concerns the rules for fixing the price applicable to deliveries of coal by way of Rotterdam, Antwerp, Ghent or any other non-German port.

The prices to be considered are those paid by the large German consumers, as shown by official publications, or, under the present condition of German legislation, the prices published by the Reichskohlenverband.

Coal shall be received at the mine; that intended to be shipped by water may, however, be received at the Rhine ports or at the Rhine-Bern Canal.

2. The two Governments approve the agreement reached on July 27, 1921, between the Office of Injured Mine Operators (Office des houillères sinistrées, O. H. S.) and the Coal Syndicate (Kohlen Syndikat, K. S.) on the subject of water-borne transport of reparation coal.

3. Germany may export any quantities of coal, provided that it executes completely the programs of delivery under Annex V, as determined by the Reparation Commission with relation to both qualities and quantities.

Germany may likewise export any quantities and qualities of coal included in the programs determined by the Reparation Commission, provided its delivery is not required by the beneficiary country.

In the above two cases, Germany shall turn over to the Reparation Commission, in the form and under the conditions made by the commission

¹*Commerce Reports*, June 19, 1922, p. 733.

²*Le Temps*, April 5, 1922. ³*Le Temps*, October 9, 1921.

and for the credit stipulated by Art. 4 of the Schedule of Payments, the equivalent value of the exportations made, calculated on the basis of the internal German price on the ground at the mine.

The preceding provisions do not apply to export contracts made before July 1, 1921, and confirmed by the Reparation Commission or to the prewar contracts referred to below (Art. 5).

4. The allied powers engage to use coal delivered by Germany in execution of Art. 5 below only for their own needs and for those of their colonies or protectorates, unless there is another agreement between the parties.

5. By application of Art. 299 of the treaty of Versailles, Germany may make deliveries of a maximum of 150,000 tons monthly in execution of prewar contracts held by the French Government, to be credited to the quotas allotted to France by the programs of the Reparation Commission. . . .

SAAR MINES

The coal situation can not be left without reference to the Saar mines. The disposition of the Saar basin constitutes one of the most debated features of the treaty. From the mines in that territory the Germans took 13,217,000 tons of coal in 1913. The French wanted the basin to supplement their metallurgical acquisitions in Alsace-Lorraine, and at Paris urged the cession of the district as compensation for the destroyed mines of Nord and Pas de Calais. The debate was an important phase of the peace conference. In the end, the Saar basin was assigned to the trusteeship of the League of Nations, which has handled the civil administration of the district successfully. All of the mines in the basin were ceded to France "in full and absolute possession, with exclusive rights of exploitation, unencumbered and free from all debts and charges of any kind" by Art. 45 of the treaty as compensation for the destroyed mines and as part payment toward the total reparation.

The Saar mines provide something like two-thirds of the temporary loss to the French coal supply from Nord and Pas de Calais mines. But when the destroyed mines were again in working order, the production of the Saar would be added to the French supply and diminish the German supply by its amount. This gain to France was, therefore, to be absorbed by the general reparation claims. It should be noted that the Saar basin is subject to a large number of servitudes running in favor of France and that the

administration of the League of Nations leads up to a plebiscite to be held on January 10, 1935, which shall determine whether the existing régime, union with France or with Germany shall be chosen. If union with Germany is elected, the ownership of the mines will be repurchased by Germany.

The mines were automatically transferred to France on the coming into force of the treaty, January 10, 1920, the actual negotiations, however, lasting a year. Their value should, therefore, have been credited against the 20,000,000,000 gold marks of bonds issued under Art. 235 of the treaty and payable by May 1, 1921. Germany tried every way she knew to have the value so credited. The Reparation Commission had no power to secure the necessary facts except from the French Government. France wanted to postpone the accounting; the other Allies knew that they would get more of current receipts if the mines were credited in. Several Supreme Council meetings discussed the matter, and France stalled them all. Toward the end of 1920 the Germans came forward with a claim of 1,057,000,000 gold marks as credit for the Saar mines. France countered with a figure of 300,000,000 and an explanation that scientific figures were not completed.

May, 1921, passed without any solution of the problem. An interallied financial agreement negotiated on August 13 provided that the value of the mines would be placed to the debit of France in the accounting under Art. 235 of the treaty.

This agreement was supposed to be negotiated by the financial ministers of the creditor states as plenipotentiaries. Just before signing M. Doumer announced that he had not full powers. He signed *ad referendum*. Immediately a storm broke loose in Paris; the cabinet failed to approve the agreement, and the whole question dragged along until the financial ministers got together at Paris last March. They signed up a general allied agreement on reparation on March 11 which contains this article:

9. In respect of the value of the Saar mines the sum of 300,000,000 gold marks shall be debited to France in distribution account in the same way as a delivery in kind made in 1922, and the provisions of Art. 6¹ of this agreement shall apply to this debit. Should the value of the Saar mines as assessed by the Reparation Commission prove to be higher than 300,000,000 gold marks, the excess will be liquidated by the distribution

¹See p. 138.

among the powers participating in reparation of C bonds to the value of such excess taken from France's share in the total series of C bonds.

Series C bonds are not issued, so that this agreement practically says that any value above 300,000,000 gold marks will be charged to France simply as a book account. The German experts claimed that the mines under exploitation were valued at 480,000,000 gold marks in 1914, and deposits to the value of 575,000,000 gold marks were then unexploited. The French retorted that the unexploited beds are at a distance from those being worked, which will last for a century, and that the unworked deposits should not be paid for until they are exploited. The Germans replied that by Part II, sec. IV, Annex, chap. I, 2, "the right of ownership of the French state will apply . . . also to the deposits for which concessions have already been granted . . . whether they have been worked or not." The commission provisionally has debited the French account with 400,000,000 gold marks under this head.

The problem is a nice one in mining law. If the Saar should go back to Germany in 1935, she would not have to buy back what she had not ceded, the unexploited mines. If the basin should remain under the present régime or go to France, Germany should be reimbursed for the unworked beds, if not previously paid. As to present value in sight, the French production in 1920 amounted to 9,400,000 tons and 9,823,000 tons in 1921, as compared with 13,217,000 tons under Germany in 1913.

VIII. REAL PAYMENT IN KIND

Payment in kind may be direct or indirect under the treaties. The debtor may rebuild and repair the damage, if allowed to do so, or, by adding to the creditor state's general wealth, may give it economic strength to rehabilitate itself. Either method of paying reparation is permissible under the treaties, and the direct method is distinctly favored by them, especially by that of Versailles, under which nearly all reconstruction comes.

But when reparation began, aside from specific commodities strenuous opposition to payment in kind developed. Britain lost mostly shipping; had plenty for immediate needs; and realized the advantage of up-to-date bottoms. So that she was not vociferous on commandeering old German stuff, nor desirous of new. Belgium decided to repair herself and collect the bill later. France desired to have Germany repair her damage, but could not wait, and so established huge paper credits that were to be recoverable. Spending money, she wanted money back. Moreover, reparation meant business, and it seemed to France that there was an advantage in keeping the expenditures and the profits both inside the country. Reparation also meant employment for French workmen. The French Government frowned for two years on payment in kind, labor or any other form than money; for three years it has accepted very little otherwise.

FRENCH INJURED DESIRE GERMAN AID

It should be noted, however, that the official French objection to payment in kind has not met unanimous approval. The *sinistrés* through the Executive Committee of the Devastated Regions have from April, 1921, taken the attitude that reconstruction should make all possible use of German aid. The committee got in touch with German building interests at that time and worked out a system for receiving supplies, which was blocked by lack of approval of the French Government. Since that time the committee has definitely and continuously worked for governmental recognition of the principle that German industry should furnish both labor and materials for reconstruction. Only in July, 1922, was this contention definitely accepted by the cabinet.

Germany, on the other hand, started with an eagerness to sup-

ply both. "The German Government," say the Comments on the Conditions of Peace of May 29, 1919,¹ "is anxious to co-operate in the restoration of France and Belgium in order to pay off the indemnity in part in German labor, and will, in due course, submit proposals as to the way in which this task, which is common to all civilized nations, can be accomplished with the Allied and Associated Powers in the quickest possible manner." On April 1, 1921, the French ministry of liberated regions announced that it had to date received offers from the German Government of materials for reconstruction valued in francs as follows:

	<i>Francs</i>
Lumber	6,700,000,000
Textiles, papers	100,000,000
Construction materials	1,500,000,000
Construction metals	900,000,000
Pig iron, iron, steel	100,000,000
Lead, zinc, aluminum	570,000,000
Animals ²	850,000,000
Industrial machinery	2,500,000,000
Seeds and plants	30,000,000
	<hr/>
Total	13,250,000,000

"Most of these offers have been refused, on account of price, late arrival, or particularly because supplying the materials had been reserved to French industry [as in the case of lumber]," stated *Le Temps*. "The minister is studying a proposal made 10 months ago for 450,000 houses³ representing a value of 350,000,000 francs."

GERMANY'S FULL PROPOSAL

The complete German proposal was made on April 22, 1921, in the midst of the gathering crisis before the fixation of total reparation. It was disregarded then, but has been the starting point of a great deal since. The proposal reads:

Germany is absolutely persuaded that it is unavoidably necessary for the purpose of restoring economic peace throughout the world that the

¹International Conciliation, Bulletin No. 143, p. 64.

²German deliveries of live stock for the ten invaded departments of France up to November 1, 1921, had reached the following total: Cattle, 71,545; horses, 53,829; sheep and goats, 145,713 (*Le Temps*, December 7, 1921, p. 4). These figures are on reparation account only. The restitution account would greatly increase the totals.

³*Sic*, but compare Germany's April 22 note, *2d*, below.

territories devastated through the war should be reconstructed and should be restored. Until this is done there is danger that feelings of hate will continue to exist among the nations concerned.

Germany, therefore, declares herself once more entirely willing to cooperate in this reconstruction with all the means and strength at her disposal, and to take into account in regard thereto, in every individual case, each wish of the powers concerned as far as possible.

With regard to the method of accomplishing reconstruction the German Government, while maintaining the proposals made by it since 1919, begs to submit a summary of the following possibilities:

(1) Germany could undertake the reconstruction of specified towns, localities or villages, or of such specified portions of the territory to be reconstructed as might be connected with each other, taking over the entire cost either as a state undertaking or by directing the work of international colonizing and settlement associations. In that event the experience gained by Germany during the reconstruction of devastated territory in East Prussia would be of special assistance. Germany will refrain from explaining this proposal more in detail at present, as the fundamental idea has, up to the present, met with objections on the part of the allied Governments.

(2) Germany is further willing, apart from the method of settlement suggested under Section I, to place at the disposal of the allied Governments immediately all assistance for the reconstruction of the devastated regions in Northern France and Belgium. The German industries have resolved to offer the following services:

a. To undertake at once in the devastated territories, on being informed of the detailed wishes of the allied Governments, the work of clearing the ground and of reforestation;

b. to repair and rebuild brickwork, and also to build works for the production of chalk, plaster, cement, &c., in territories to be reconstructed; to deliver on request machinery and appliances connected with the obtaining and preparation of raw materials for building in existence on the spot, and, in addition to this, to deliver German building materials and requisites from Germany;

c. to make arrangements that all appliances and machinery required for building purposes not existing in the reconstruction territory should be obtained from Germany if necessary, including such building materials as are requisite for first installation;

d. to begin immediately with a plan for building construction of all kinds, at least 25,000 wooden houses [dwelling houses], these to be erected before the beginning of the cold season, with a view to coping with the extraordinary housing shortage in the devastated districts.

e. In addition, provision of fittings—for example, furniture, stoves, &c.;

f. the execution of deep and shallow excavations of all kinds, according to plans and under control of the French authorities.

Whether this construction is to be carried out by contract of the French or German Government, by public contract or private, or by means of all three methods, is to be decided according to the wishes of the allied Governments.

The German Government is prepared, on the basis of this proposal, to enter into arrangements with German building laborers' organizations, also organizations of foremen and officials and guarantees that members of these organizations are ready by their labor to co-operate in the reconstruction of the devastated districts.

(3) A certain amount of time will be necessary to reach an understanding on all the questions which will arise later.

However, persons whose property has been damaged are greatly interested in the rapid reconstruction of their buildings and property.

Therefore, the German Government declares itself ready from now on and up to the time when a complete arrangement may be made operative to designate capable and honest contractors for the persons who desire to see their houses and other ruined property repaired. These persons or their representatives may work out complete plans of construction and secure tenders with the aid of these contractors. These persons may of course themselves designate the German houses with which they desire to have relations.

The Government is ready to take over the entire cost of such buildings as far as it can be made in paper marks, to be reckoned against the reparation account, while payments of expenditure which has to be met in foreign currency is reserved for further arrangement.

(4) Should the allied Governments desire the co-operation of the German Government in the work of reconstruction to be given in any other form than that proposed, the German Government is prepared thoroughly and conscientiously to examine any suggestions made by the Allies, and any proposal which may be made, and to consider them with a view to co-operation in the work of reconstruction, corresponding to the wishes of the Allies.

The German Government requests the allied Governments to initiate as quickly as possible the necessary discussions concerning the details of the arrangements to be arrived at.

During the past year reparation prospects have shifted to delivery in kind, but it yet remains slight in amount as a part of active payments, as can be seen from the values of deliveries from November 11, 1918, to April 30, 1922, under Annexes II and IV:¹

¹*Le Temps*, June 18, 1922.

	<i>Gold marks</i>
France	8,991,000
Belgium	18,430,000
Italy	8,688,000
Serb-Croat-Slovene State	36,437,000

The adoption of the system was in 1922 rapidly increasing. The above deliveries were valued at 950,000,000 paper marks at the end of March, at which time Germany had orders for deliveries in kind valued at 5,550,000,000 paper marks, of which two-thirds were from the Serb-Croat-Slovene State.¹ At the end of April the orders on hand were valued at 7,000,000,000 paper marks.

THE WIESBADEN AGREEMENT

The history of delivery in kind is briefly told. Immediately after the signing of the Schedule of Payments May, 1921, the Germans became insistent on establishing a system. On the other side, Louis Loucheur, the French minister of liberated regions, placed himself into position where he could take up the matter seriously. He and Rathenau met at Wiesbaden off and on for three months and finally produced the agreement of October 6, 1921.

The agreement recites that to Germany's "earnest desire to participate in the reconstruction of the devastated regions by delivering the greatest possible amount of plant and materials," France had replied that the law of April 17, 1919, "did not allow it to impose upon the French *sinistrés* any definite utilization of their funds." The agreement could not supersede the law, and is therefore exceedingly complicated. Its purpose "is to secure the largest possible contribution by Germany to the early restoration of the devastated areas of France in the form of deliveries in kind, without the consequential inconvenience which . . . must neces-

¹Some idea of the complications of deliveries in kind can be gained from the Yugoslav receipts and orders on Germany. A recent summary gives receipts as follows: 2,690 harrows, 180 iron wheel barrows, 9,500 milk cans, 670 kilos of lubricants, 15,615 of boring machine parts, 184,000 kilos of iron tubes, 100,000 jute sacks, 30,000 kilos of engine tools 4 printing presses, 100 small wagons, 15 water pumps, 100 sowing machines, 6 bookbinding machines, 998 whetstones, 9,089 plows, 19,612 kilos of medicinal drugs, 10,000 kilos of indigo. Ordered on reparation account were: 400 locomotives, 7,500 freight cars, 30 tank locomotives, 1,000 lorries, 7,000 meters of metal cable for mines, 2,500 woolen blankets, 500 centrifugal machines, 500 sprayers for vineyards, 10,900 packing cases and 6,500 post bags. (*Reconstruction*, No. 24, p. 6.)

sarily be caused to France by reason of her having to account to the other Allies immediately for their proportionate shares in the value of such deliveries." This is sought to be done "by excluding from the immediate financial provisions of the treaty a large proportion of the value of all deliveries in kind of Germany to France during the next 14 years." To accomplish this end the private French *sinistrés* as a group and a German company are to deal with each other. Germany was to deliver before May 1, 1926, material to the value of 7,000,000,000 gold marks, receiving immediate credit in the year of delivery provided the French share of deliveries under the schedule of payments would not thereby be exceeded. If the French share of 52% were thereby exceeded, the excess would be carried to a deferred account to be liquidated by canceling German bonds up to May 1, 1936. Fair price and other technical arrangements were made, and the whole scheme was everywhere hailed as an excellent method of accelerating reconstruction and enabling Germany to bear the burden assumed.

The Reparation Commission on October 20 found that the agreement "involves certain departures from the provisions of Part VIII of the treaty," which it "has no power to authorize"; but recommended that reasonable facilities for deferred payment in respect of the exceptional volume which . . . the deliveries in kind to France are likely to assume during the next few years, should be accorded to France."

No decision in that sense was taken by the creditor states. Instead, there developed a tendency to make arrangements for delivery in kind on a somewhat similar basis for the other states. The principle followed was that of "free contracts," that is, nationals of the creditor state would deal at will with nationals of Germany for their supplies, which should be paid for through the Reparation Commission's crediting machinery. The restitution agreements already referred to constituted a partial model for the system.¹ A project of convention to this end was initialed at Berlin on February 27, 1922, by M. Bemelmans, representing the commission, and Herr Cuntze, representing the German ministry of commerce.²

¹See p. 42.

²For text see *Le Temps*, March 3, 1922.

ALLIES AGREE ON PRINCIPLES

The French *sinistré* objected to the Wiesbaden agreement because "he desires to deal with the German producer of his choice, to order from him exactly what he wants and to deal directly with him as to price." These desires were possible under the Bemelmans-Cuntze agreement, but "a certain number of reservations by the German signatory. . . would have the effect of excluding France from the benefits" of its procedure. Therefore, M. Gillet of the French ministry of liberated regions entered into negotiations with Dr. Ruppel on behalf of Germany, and on March 15 they signed a new agreement. This arrangement applies only to *sinistrés* and provides that orders under the Wiesbaden agreement may be executed in accordance with that of February 22. For *non-sinistrés* the procedure of the treaty applies.¹

The difficulty at the same time came before the Paris meeting of the allied finance ministers, who devoted part of their agreement of March 11 to the subject and laid down some clear rules:

ART. 3. Of the total amount of deliveries in kind which Germany will be called upon by the Reparation Commission to make to the allied powers during 1922, 65% will be allotted to France and 35% allotted to the other allied powers.

For the purposes of this distribution the proceeds of the British Reparation (Recovery) Act and of any similar legislation passed by other allied powers in pursuance of the decision of the allied Governments of March 3, 1921, will be treated as a delivery in kind.

The 35% share of the deliveries in kind to be made by Germany during 1922 will, after deducting the share of Great Britain (viz. 24% of the amount to be allotted to powers other than France), be divided between the other powers concerned in the proportions fixed by the Spa agreement, subject to any adjustments which may be required if one or more of the powers concerned takes less than the amount of deliveries in kind to which it is entitled.

Out of the above-mentioned proportion of 35% there shall be allotted to Italy a sum of 240 million gold marks made up of the amounts of which the other allies can not take advantage.

The Governments concerned will prohibit the re-export of deliveries in kind received under the provisions of this article.

ART. 4. The Governments represented by the undersigned consent to the operation for a period of three years of those provisions of the Wies-

¹*Exposé des motifs, Le Temps, March 23, 1922.*

baden agreement of October 6, 1921, to which their agreement was deemed to be necessary by the Reparation Commission, and in particular of the provisions respecting the passing of a credit to Germany and a debit against France for the value of deliveries in kind effected in execution of the agreement, subject to the following conditions:

- (1) The amounts of the deferred debits shall not exceed

	350	million	gold	marks	in	1922
	750	"	"	"	"	1923
	750	"	"	"	"	1924

- (2) the amount standing deferred at the end of 1924 shall be liquidated by France, with interest as provided for in the agreement, in ten equal annual instalments beginning on May 1, 1926, by set-off against sums due to France in each year out of reparation receipts, and unless the operation of the agreement is continued for a longer period by agreement among the Allies, France shall, in no year subsequent to 1926, receive, whether in cash or deliveries, sums which, when added to the said instalments, would result in France receiving in that year more than her proportionate share, as determined by interallied agreements, of the total payments by Germany in that year, including the instalments due by France.

ART. 5. The Governments signatory to this agreement consent to the putting into operation, subject to the approval of the Reparation Commission, of agreements for deliveries in kind similar to the Wiesbaden agreement of October 6, 1921, which may be concluded by any power participating in reparation, provided that the value of the deliveries in kind effected in virtue of Annexes II to VI to Part VIII of the treaty of Versailles and under such agreements to be received by powers other than France (including the proceeds of the British Reparation Recovery Act and of any similar legislation passed by other allied powers in pursuance of the decision of the allied Governments of March 3, 1921) shall not exceed in 1922 35% of the total amount of deliveries in kind which Germany will be called upon by the Reparation Commission to place in 1922 at the disposal of the allied powers.

ART. 6. Each of the powers having a credit due to it on account of reparation shall retain for its own use, up to the limit of the share allocated to that power, without any obligation to make payments in cash in respect thereof at any time, the value of any deliveries in kind received up to December 31, 1922, including the proceeds of the British Reparation (Recovery) Act and of any similar legislation passed by the other allied powers in pursuance of the decision of the allied Governments of March 3, 1921.

But subject to the provisions of pars. 4 and 5 above, and of any inter-

allied agreement already entered into, the receipts of any allied power in respect of reparation in the period to December 31, 1922, together with interest thereon at the rate of 5% per annum as from January 1, 1923, shall be taken into account in determining the proportions of reparation receipts due to each power in 1923 and subsequent years.

The Reparation Commission issued a communiqué on April 3, approving all these documents:

1. The commission takes note of the special accounting arrangements in agreements between the German Government and allied powers individually, under the following reservations:

a. The provisions of Art. 248 and the order of priority of Art. 251 of the treaty of Versailles and the corresponding provisions in other treaties of peace shall not be affected;

b. The interests of other states with reparation rights shall not be infringed;

c. The general provisions prescribed by the treaties and the commission with respect to accounts shall be duly observed.

2. The commission takes note of and approves the putting into force of the protocol signed on October 6, 1921, at Wiesbaden on "the conditions of delivery by Germany of materials for the reconstitution of the devastated regions of France," within the limits contemplated by the financial arrangement of March 11, 1922, and with the following complementary conditions:

a. The rights of powers not represented in the conference of financial ministers of March 11 are reserved;

b. The right of the French Government to benefit by the provisions of the project of agreement reached on March 15, 1922, between the representatives of the French and German Governments remains open;

c. The Reparation Commission takes note of the provisions with respect to accounting in the said documents and will give effect to them so far as they concern it, under reserve of the provisions of No. 1 above.

It is decided that, for the application of Art. 4 of the Schedule of Payments, the part of the value of deliveries in kind giving rise under the agreement to deferred settlement shall not be included in the total value of the exportations of the delivery year; on the other hand, the amount of the credit passed to Germany for deliveries on deferred settlement shall be added to the total value of exportations for the settlement year.

COMMISSION PROVIDES SCHEME

The present status of reparation in kind is represented by the Bemelmans-Cuntze agreement of Paris of June 2, negotiated by

the commission and Germany. Largely technical in character, the essential provisions of its 20 articles are:¹

ARTICLE I. The Reparation Commission and the German Government, desiring to establish as practical a procedure as possible for the deliveries in kind stipulated by Annexes II and IV, Part VIII, of the treaty of Versailles, have agreed to permit for this purpose, barring exceptions specified herein, direct contracts between allied and German nationals according to the usual commercial practices and in which the German Government shall intervene only to the extent set forth in the present arrangement.

The present arrangement is concluded with a view to facilitating the payment of reparation and solely with the purpose of conforming to the economic conditions which control normal commerce.

The allied Governments adopting the procedure hereinafter described and the German Government, which has accepted it, will seek to apply these conditions, to the exclusion of any others.

ART. II. The procedure established by the present arrangement shall be submitted to the interested allied Governments by the Reparation Commission; each of them shall be free to adopt or reject it, on the understanding that this procedure may be employed concurrently with another, and that any allied Government adopting it shall be bound by all the clauses of the present arrangement.

The present arrangement shall remain in force between the Reparation Commission and the German Government until December 31, 1922, and shall then continue from year to year by tacit renewal unless denounced by either party before November 30 of any year.

Any allied Government adopting it engages to apply it for at least six months. After this period, the Government shall have the right, if the agreement does not work in a satisfactory manner, to demand that the Reparation Commission bring it to an end so far as concerns that Government, with a previous notice of at least one month.

The German Government shall likewise have the right, at the end of six months and on one month's notice, to demand that the Reparation Commission bring the arrangement to an end as respects an allied Government which the commission shall have several times noted as not respecting the clauses of the present arrangement. The Reparation Commission shall have only to determine that the allied and German Governments are not in agreement to rescind the present procedure with respect to them.

ART. V. Merchandise whose exportation is absolutely forbidden or is permitted only in accordance with conditions fixed and published in the

¹Translated from *L'Europe Nouvelle*, June 24, 1922, p. 790.

commercial journals shall continue to be obtained only under the procedure of the peace treaty. [The list, annexed, consists mostly of food-stuffs.]

ART. VII. For the articles listed in Annex B [metals and metal products, chemicals, oils, etc.] and which are bought according to the present procedure, the purchaser shall pay in cash directly to the seller the percentage indicated in the list [35%-90%].

The present article shall not apply to objects purchased by *sinistrés* or on their behalf or for the reconstruction of their factories, shops, industrial plants and installations, excluding any reconstitution of their commercial stocks. . . .

ART. VIII. The contracts to be drawn up by direct dealing must amount to a minimum value of 1,500 marks gold.

The contracts, or eventual additions thereto, shall be negotiated directly according to commercial custom between the interested parties, each of whom is responsible for observing laws and regulations of his own country, including those relating to imports and exports. Mention shall be made of the agreement of the parties to payment on reparation account. . . .

ART. IX. These contracts or additions, on conclusion and at the latest within two weeks, shall, on the initiative of the allied national, be submitted to the Reparation Commission for approval by the interested allied Government.

The Reparation Commission shall immediately notify the contract or addition to the German Government (Kriegslastenkommission), which should on its side have been informed thereof by its national. This notification shall automatically constitute and be a provisional approval.

This approval becomes final at the end of two weeks for contracts (one week for additions) from the date of notification, unless one or more of the interested Governments presents to the Reparation Commission within that time a demand for the canceling of the provisional approval based on one of the four following reasons:

a. If the said contract or addition is in contradiction of the present arrangement or of any subsequent complementary arrangement;

b. If there is fraud in the price and conditions of the said contract or addition;

c. If the decision on the matter of the export license has not been made at the end of the two weeks (or one week) referred to above;

d. If the export license is refused. . . .

ART. X. Final approval shall have the following effects:

1. The German Government shall forthwith grant the export license, if it has not already done so;

2. The German Government shall immediately assume the financial obligations incurred by the allied national with the German national by

reason of the contract or addition, except as concerns the cash payments under Art. VII;

3. The German Government shall be credited by the Reparation Commission, by a debit against the interested allied Government, with the value in gold marks of the sums thus disbursed by the German Government;

4. Consequently, the allied national will be responsible only to his government for the settlement of the financial obligations under No. 2 of the present article. He will, however, pay directly to the German national the cash payments due as a result of the application of Art. VII;

5. Except for the financial obligations under No. 2 of the present article, the contract or addition shall be executed between the contractants alone, who shall be bound as between themselves by it. Particularly, no Government is responsible for the solvency of its own national.

After a lengthy consideration of the problem, the French Government decided to act under the Wiesbaden agreement. The decision is significant. That agreement confines its advantages to the *sinistrés*, or injured, and France is anxious to aid them in every possible way. But the other agreements contemplate quite as much the facilitation of German payments by deliveries in kind. France is not particularly interested in that, except as it eases the burden of the recoverable budget and unless it can be effected without strengthening Germany commercially.

The agreement became effective so far as Germany was concerned on September 15.

FRANCE MAKES ARRANGEMENTS

The Government's acceptance of a system on July 20 has been followed in rapid succession by important developments. A Government circular issued with great promptness stated that the greatest importance was attached to the speedy development of imports on as large a scale as possible from Germany under the agreement. The principal point to be borne in mind by the French importer, and which must be included in all contracts, is that merchandise imported under the agreement is to be applied exclusively to reconstruction or reconstitution of property in the devastated regions. The system put into effect is essentially that described above, worked out in full detail so that it will apparently function with great smoothness. About the only new point is the

provision that imports under the agreement will benefit by the lowest tariff in force.¹

August 14, Guy Louis Jean Marquis de Lubersac, president of the General Confederation of Co-operatives for Reconstruction of the Devastated Regions, and Hugo Stinnes, the German industrial magnate, met at Niederheimbach in order to negotiate generally upon German delivery of material. By the agreement reached on August 30, the Aktiengesellschaft für Hoch-und-Tiefbau of Essen undertakes to supply reconstruction materials to co-operatives whose claims total about 13,000,000,000 gold marks. The arrangement is in accordance with the Wiesbaden agreement. Prices are to be agreed upon, plus 6% profit. On the German side there is a financial arrangement with a consortium of German banks and the goods are to be paid for by French *sinistrés* by cancellation of German reparation indebtedness.

The first large contract under the agreement was for 1,500,000 cubic meters of building lumber deliverable in 1923. M. de Lubersac in announcing the contract called attention to the fact that before the war France took twice that much lumber from Germany annually. The agreement, he said, was opposed in France. "Our Government still encounters opposition to this method of payment from some French industrials, who argue that in this critical time they have the right to hope that the market of the devastated regions would be reserved for them."

Owing to the shortage of coal in Germany because of demands for reparation delivery, Art. 7 of the agreement was a declaration that an effort would be made to have a quantity of reparation coal used by Germany in manufacturing materials for the devastated regions. "I am able to say to-day," said M. de Lubersac, "that the French Government does not consent to retrocede German coal to the Stinnes firm, but that it is disposed to permit the confederation of co-operatives to buy from the French state a certain quantity of such coal in order to increase deliveries of materials."²

Other plans similar to the Lubersac-Stinnes agreement are taking shape, including a most interesting one between the Exec-

¹*Commerce Reports*, September 11, 1922, p. 751; *Le Temps*, August 11, p. 4.

²*Le Temps*, September 23, 1922, p. 2. On the price allowed for reparation coal to Germany and its selling price in France, see p. 126.

utive Committee of the Devastated Regions and the German building trades for both materials and labor.

INDIRECT PAYMENT IN KIND

A method for the indirect payment of reparation was contemplated by Part VIII, Annex II, 19, of the treaty, which provides for the possibility of German labor and materials being utilized for works designed to develop the industrial or economic life of creditor states, as opposed to the restitution and reparation of war damage. Obviously such a provision insures the receipt of value rather than the rehabilitation of damage actually done. One question which it raises is whether the creditor—at a time when much remains to be done in repairing actual physical damage—should indulge in improvements which were previously unessential, in the sense that they were not deemed necessary under normal conditions. Curiously enough, however, the objection raised against Germany's rebuilding destroyed habitations, namely, that it was advantageous to have the work done by national contractors, has not been raised against this indirect form of reparation. Rather it has been urged that the latter would not otherwise be done at all. Undoubtedly in the long run, the indirect reparation will represent profitable improvements, even though at the present time it represents something akin to a luxury.

The proposition for indirect reparation which is now in the field was approved by the French cabinet on July 4, 1922, and consists of water-power, navigation, irrigation and tunnel developments. All of the projects are of a nature to be almost immediately productive of revenue, necessitate a large amount of labor which can be segregated in regions distant from large French centers, and require large amounts of rough materials for construction purposes. By the program agreed upon, 13,419,000,000 paper francs will be furnished by Germany on account of reparation. The amount to be furnished by France consists in the case of every project of all the management costs, purchase of land and interest changes; usually, the hydraulic and electrical machinery; customarily, replacement parts for construction machinery, a proportion of the lime and cement, and some miscellaneous items. The program in detail shows the following division:¹

¹*Commerce Reports*, August 21, 1922, No. 34, pp. 564-565.

BOTH COUNTRIES TO CONTRIBUTE

145

	<i>German participation thousand francs</i>	<i>French participation thousand francs</i>	<i>Total thousand francs</i>
Rhone project	2,655,000	945,000	3,600,000
Truyère project	129,000	106,000	235,000
Dordogne project	185,000	135,000	320,000
Saint Maurice and Wesser- ling project	63,500	500	64,000
Saar-Moselle-Meuse project .	502,000	88,000	590,000
Meuse-Scheldt project	360,400	59,600	420,000

The French delegate on the Reparation Commission presented this program to the commission in a note of July 25 with the request that approval be given to it. The commission on August 5 pronounced the plan as within the scope of the treaty, but requested complete details before giving a formal approval.

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Report II on Unemployment (Item 2 of the Agenda of the Genoa Conference)40
Report III on Employment of Children at Sea (Item 3 of the Agenda of the Genoa Conference)20

Report IV on Seamen's Code (Item 4 of the Agenda of the Genoa Conference).....	\$0.90
Draft Conventions and Recommendations adopted by the International Labour Conference at Genoa.....	.50
Bulletin size.....	.10
Minutes of the Commission on Hours of Labour of the Genoa Conference.....	1.00
Delegates' Official Guide (Genoa).....	.10
List of the Members of the Delegations at the International Labour Conference (Genoa).....	.10

III. INTERNATIONAL LABOUR CONFERENCE—THIRD SESSION, HELD AT GENEVA, 1921.

In English, French, German, Italian and Spanish:

Stenographic Record of the Proceedings. 2 vols.....	5.00
Questionnaire I—Reform of Constitution of Governing Body of the International Labour Office.....	.20
Questionnaire II—Agricultural questions.....	.50
Questionnaire IIIa—Disinfection of wool infected with anthrax spores.....	.20
Questionnaire IIIb—Prohibition of the use of white lead in painting.....	.20
Questionnaire IV—The weekly rest day in industrial and commercial establishments.....	.10
Questionnaire Va—Age of employment as trimmers and stokers.....	} .10
Questionnaire Vb—Compulsory medical examination of all children employed on board ship.....	

In English and French:

Report I on the Reform of Constitution of Governing Body of the International Labour Office.....	.15
Report II on adaptation to agricultural labour of the Washington decisions concerning the regulation of hours of work.....	.30
Report IIIa on the adaptation to agricultural labour of the Washington decisions concerning measures for the prevention of or providing against unemployment.....	.30
Report IIIb on the adaptation to agricultural labour of the Washington decisions concerning the protection of women and children.....	.30
Report IV on special measures for the protection of agricultural workers.....	.40
Report V on the disinfection of wool infected with anthrax spores.....	.30
Report VI on the prohibition of the use of white lead in painting.....	.30
Report VII on the weekly rest day in industrial and commercial employment.....	.50
Report VIIIa on age of employment as trimmers and stokers, b compulsory medical examination of all children employed on board ship.....	.15
Supplementary report.....	.30
Report of the Director.....	1.00
Technical Survey of agricultural questions: Part I. Adaptation of Washington decisions. Hours of work. Unemploy-	

ment. Protection of women and children. Part II.	
Special measures for the protection of agricultural workers	\$3.00
Report of the International Emigration Commission.....	1.00
Draft Conventions and Recommendations adopted by the International Labour Conference at Geneva.....	.50
Official Delegates' Guide.....	.10
List of Members of Delegations.....	.10

In German:

Summary of the Reports concerning the different items of the Agenda.....	.30
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IV. INTERNATIONAL LABOUR CONFERENCE—FOURTH SESSION, HELD AT GENEVA, 1922.

In English, French, German, Italian and Spanish:

Questionnaire Ia. Reform of the Constitution of the Governing Body of the International Labour Office. b. Periodicity of the Sessions of the Conference.....	.20
Questionnaire II. Communication to the International Labour Office of Statistical and other Information regarding Emigration and Immigration and the Repatriation and Transit of Emigrants.....	.20
Report Ia. Reform of the Constitution of the Governing Body of the International Labour Office. b. Periodicity of the Sessions of the Conference.....	.20
Report II. Communication to the International Labour Office of Statistical and other Information regarding Emigration and Immigration and the Repatriation and Transit of Emigrants.....	.30
Supplementary Report on Items I and II of the Agenda.....	.10
Methods of compiling Emigration and Immigration Statistics	.20
Unemployment Enquiry: Remedies for Unemployment....	.60
Emigration and Immigration: Legislation and Treaties....	1.25
Report of the Director. Appendices: Special Report on the Situation with Regard to ratification of the Hours Convention. Special Report on the Unemployment Enquiry....	2.00
Delegates' Official Guide.....	.10

IX. Other Publications.

Under this heading are included all publications which do not fall into any of the categories mentioned above. Such publications comprise, for example, the Constitution and Rules of the International Labour Organisation, as well as the series devoted to explaining the functions and activities of the Organisation and the International Labour Office.

Constitution and Rules of the Permanent Labour Organisation.	
English, French, German, Spanish and Italian.....	\$0.30
Report presented to the Peace Conference by the Commission on International Labour Legislation, English and French.....	.10
The Labour Provisions of the Peace Treaties. English and French....	.10
The International Labour Organisation and the first year of its work.	
English and French.....	.20
BIBLIOGRAPHICAL SERIES. A List of Publications appeared weekly during 1921. Now discontinued. Price per number.....	.05