

THE FIRST THREE YEARS OF GERMAN REPARATION.¹

INTRODUCTION.

The history of the first three years of reparation is an account of a gradual evolution of ideas, largely in response to economic conditions. At the outset, beginning with the armistice, through the British general election and the discussions of Versailles, the main consideration was, How much ought Germany to pay? Thus, in the treaty Germany was declared responsible for all the loss and damage caused by the war. Economic conditions, however, showed Germany's incapacity to pay this huge amount; hence a reduction in the demands, by delimitation in the peace treaty of the claims to be laid against her for satisfaction. It was decided she should pay only the amount of damages to persons and property. The determination of the exact amount of Germany's reparation liabilities was postponed under the terms of the treaty in order to permit of more exact computation of the damages suffered than was possible at that stage.

During the second period—from the peace treaty to the second London ultimatum—the Reparation Commission had the power in fixing her liability to consider in greater detail Germany's paying potentialities. The amount was finally fixed at 132 billions of gold marks—a figure which obviously would have been unacceptable at the Peace Conference.

For some time after that reparation remains, on the surface, a settled question. Then, owing to accumulating evidence of not far distant default, begins the third series of conferences and parleys, lasting up to the most recent of all. These negotiations have been characterized by concessions, one after the other, to the economic facts of the situation. In Great Britain the trade depression and the recognition of the effect of Germany's payments upon the export trade of the Allies have tended to lay peculiar emphasis on these factors. France, however, has still to receive any considerable portion of what she has already expended on the restoration of her devastated areas. Germany's prospects are critical.

It has been estimated that the war cost, in pure material expenditure, some 84 billions

of dollars,² in terms of 1913 prices. Of the 132 billions of gold marks which Germany was called upon to pay for damage to persons and property, France, on account of her enormous losses through devastation, was to receive 52 per cent and Great Britain 22 per cent. So far Germany has paid in cash and kind a net amount of about 7 billions of gold marks, to be divided between the Allies, and in the meantime the French Government has expended nearly 50 billions of francs (paper) on the restoration of the devastated areas, the work being still far from completion.

It has now become apparent that reparation is not a problem to be treated as a disconnected unit for politico-economic negotiations. A third important development since the armistice has been the growth abroad of the idea of the inseparability of reparation from international debts, of international payments from internal industrial prosperity, of internal prosperity from the location of political boundaries. No distinct point of time can be named from which these developments date. They are psychological, and have evolved themselves, gradually assuming their due proportion, becoming observable little by little.

The problem has now reached the stage where this development is easily perceptible. For this purpose no more than a plain statement of historical fact is necessary. The purpose here is to present a brief account of the chief events in the history of the reparation problem, without partisan criticism or the elaboration of any particular thesis as the foundation for any proposed remedy for the ills of the present situation.

As a preliminary guide to the more detailed survey which appears in the subsequent articles, the following table presents a condensed chronological statement of the outstanding dates and events of which mention will be made:

CHIEF DATES AND EVENTS IN THE FIRST THREE YEARS OF GERMAN REPARATION.

Nov. 11, 1918...	Armistice concluded. Germany to make "reparation for damage done."
June 28, 1919...	Treaty of Versailles signed. Germany to pay for damages to persons and property.
Apr. 19-26, 1920...	Conference of San Remo. Mr. Lloyd George suggests meeting with German representatives.
May 14-16, 1920...	Conference of Lympe. Franco-British commission of experts set up to consider methods of payment.

¹ This is the first of a series of four articles prepared by Mr. W. F. Crick, of the Division of Analysis and Research. This series is intended to bring together in connected form such facts as are necessary to a clear understanding of the reparation situation as it presents itself to-day. The present article deals with those terms of the treaty of Versailles which concern the reparation problem. The second article will relate the history of the subsequent negotiations as far as the fixing of Germany's liability in April, 1921. A third article will bring up to date the subsequent modifications of the reparation demands; while the fourth will discuss the fulfillment of the demands made at various stages in the negotiations, including the payments to date.

² Estimate of Mr. Harvey E. Fisk, "French Public Finance."

- June 19-22, 1920...Iympne-Boulogne conversations. International loan for Germany suggested.
- July 2-4, 1920...Brussels Conference. France to receive 52 per cent of German payments, Britain 22 per cent.
- July 5-16, 1920...Spa Conference. German delegates present. Percentages confirmed. Coal demands reduced.
- Dec. 16-22, 1920...Brussels Conference of allied and German experts. Suggestion made that Allies be given a first charge on German customs receipts.
- Jan. 24-30, 1921...First Paris Conference. Forty-two annuities and 12 per cent levy on exports agreed on. "Sanctions" formulated.
- Mar. 1-7, 1921...First London Conference. German conditional counterproposal to pay 30 billions of gold marks rejected. Materials and labor for reconstruction offered. Ultimatum delivered.
- Apr. 24, 1921...German proposal to United States Government, conditional on loan. Offer to take over part of allied debt to United States. United States Government refuses transmission of proposal to Allies.
- Apr. 27, 1921...Decision of Reparation Commission announced. Germany to pay 132 billions of gold marks and Belgian debt to Allies, in annuities of 2 billions plus 26 per cent on exports. Guarantees committee set up.
- Apr. 29, 1921...Second London Conference assembled.
- May 5, 1921...Second ultimatum to Germany. Occupation of Ruhr threatened.
- May 11, 1921...Unconditional acceptance of decision by Germany.
- Oct. 6, 1921...Loucheur-Rathenau agreement signed at Wiesbaden, arranging for direct supply of restoration materials to France.
- Oct. 20, 1921...Reparation Commission approves the agreement in principle.
- July 20, 1922...Amended agreement comes into operation.
- Jan. 8, 1922...Cannes Conference assembled. Program for 1922 agreed on. January and February payments reduced.
- Mar. 21, 1922...Reparation Commission announces details of conditional partial moratorium for 1922—720 millions in cash, 1,450 millions in kind to be paid for the year.
- May 24, 1922...Committee of experts meets to consider loan to Germany. Finds loan impossible under present schedule of payments.
- July 12, 1922...Germany presents formal request for 2½-years moratorium.
- Aug. 7-14, 1922...Third London Conference. France refuses to grant moratorium without further guarantees.
- Aug. 31, 1922...Reparation Commission grants six-months' moratorium, payment to be in treasury bills, guaranteed in manner satisfactory to Belgian Government.

For the sake of brevity, no account is given in the following discussion of the negotiations

which went on at Versailles regarding the reparation sections of the treaty. These, while of great value as showing the existence in embryo of policies which later became clearly defined, are primarily diplomatic rather than economic.

I. THE TREATY OF VERSAILLES.

While the present article can not claim to be a complete digest of the treaty provisions, certain clauses of minor importance having been omitted, it is believed to contain all the vital provisions directly related to the subject of reparation. The précis form has been thought preferable to the annotated text, both from considerations of space and from a desire to reduce the diplomatic terminology necessarily employed to a rendering to which the general reader is more accustomed. For purposes of verification the reader is referred to the footnotes to which in all cases the references are relegated.

For the sake of simplicity and order the present chapter is divided into four sections, into which the various provisions of the treaty have been sorted. These are as follows:

- A. General principles and provisions.
- B. The Reparation Commission: Its powers and duties.
- C. What Germany is to pay.
- D. How Germany is to pay.

A. GENERAL PRINCIPLES AND PROVISIONS.

The opening provision of the part¹ of the treaty devoted to reparation was inserted evidently to placate those who insisted upon the moral right of all the allied belligerents to claim payment of the whole cost of the war from Germany. In it the Allies affirmed, and Germany accepted, full responsibility for all the loss and damage suffered by the Allies. The following article, however, reverting to inescapable facts, recognized that the resources of Germany are not adequate to make complete reparation. Hence, as a compromise, Germany undertook to make reparation for all "damage done to the civilian population * * * and their property * * * by land, sea, and from the air," and for damages, defined in detail below, such as pensions, allowances, etc.² In addition, Germany was to make special provision, by an issue of bearer bonds to the Reparation Commission, payable May 1, 1926,³ for the reimbursement of Belgium for all sums borrowed from the Allies up to November 11, 1918, plus interest at 5 per cent. Furthermore, Germany was to make

¹ Part VIII.

² Annex I.

³ Or, at Germany's option, on any previous May 1

restitution of cash, animals, securities, and property seized, which could be identified, and which in no case was to be credited to her as payment of a part of her reparation liabilities. Certain property, chiefly works of art and historical valuables, was specifically cited for restitution.⁴ As an addition to actual reparation, Germany was also to pay the salaries and expenses of the instruments set up to exact reparation, namely, the Reparation Commission and its staff and the Army of Occupation.

In order to carry out these obligations, Germany submitted to the direct application of her economic resources to the physical restoration of the invaded areas, the values of any goods supplied and services rendered being, of course, credited to her reparation account. She undertook, moreover, to "pass, issue, and maintain in force any legislation, orders, and decrees that might be necessary to give complete effect to" the reparation provisions of the treaty—an elastic clause, particularly as it is not clear whose judgment as to what must be done, and when, is final. Reparation, it is recognized, shall not only have priority over the service or liquidation of any domestic loan, but shall be a first charge on the assets and revenues of the German Empire and its constituent States. Further, the principle is recognized that German taxation should be at least as heavy, "proportionately" (another vague term, not conjoined to any specific basis of comparison), as that of the Powers represented on the Reparation Commission. Germany admits that, in case of "voluntary" ⁵ default in reparation payments, the Allies shall have the right to take steps such as "economic and financial prohibitions and reprisals, and in general such other measures as the respective Governments may determine to be necessary in the circumstances," ⁶ none of which steps shall be regarded by Germany as acts of war. As regards the valuation of goods, etc., handed over by Germany in part payment of reparation, the Reparation Commission is left, in most cases, with a free hand, to place upon them such values as it considers just. Exception to this rule is made in the case of coal to be handed over (see p. 1294), while in assessing the total claims against Germany the principle is to be followed that damages for the restoration of devastated areas shall be assessed at the cost at the time of carrying out the work. Another heavy responsibility placed

upon Germany was that of indemnifying those nationals who should be dispossessed of property and interests by the Allies under certain exceedingly broad powers given to the Reparation Commission by article 260. This most remarkable provision will be dealt with in a later section.⁷ The same responsibility lies upon Germany in connection with the cession of the Saar district, etc.

As opposed to the severity of these conditions, there are three principles favorable to Germany enunciated in the treaty. Firstly, in accordance with Mr. Lloyd George's memorandum of March 25, 1919,⁸ the period during which Germany was to make reparation was fixed at 30 years, with the proviso that if any balance remained over to be paid at the end of that period it might, at the discretion of the Reparation Commission, be postponed for later settlement or otherwise dealt with as the allied Governments might determine. Secondly, it was laid down that in determining Germany's liability and considering Germany's capacity to pay, the commission should give her the opportunity of presenting arguments. Thirdly, in determining the details of reparation, the economic life and efficiency of Germany were to be considered by the commission. It was recognized at the time of the making of the treaty that Germany's industrial efficiency was severely handicapped by shortage of food and raw materials. Hence, it was provided that such supplies of food and raw materials as were essential to enable Germany to meet her obligations should be imported, while the payments required to be made before May 1, 1921 (20 billions of gold marks) should be considered as inclusive of payment for these commodities. Furthermore, in deciding what should be required of Germany in the way of deliveries of animals, machinery, reconstruction materials, etc., the commission was to "take into account such domestic requirements of Germany as it deemed essential for the maintenance of Germany's social and economic life," so that "the industrial life of Germany be not so disorganized as to affect adversely the ability of Germany to perform the other acts of reparation."

B. THE REPARATION COMMISSION."

The treaty set up, as an instrument for the execution of its reparation provisions, the Reparation Commission, a body with enormous duties and very considerable powers. The legal status of the commission is that of an

⁴ Part VIII, Sec. II.

⁵ It is not clear what constitutes "voluntary" default. Presumably, under the powers given in Annex II, §12 (see p. 1291, column 2), the Reparation Commission would judge as to the circumstances of the default.

⁶ Annex II, §18. Even on the principle of *eiusdem generis*, these powers are extremely wide, especially as there is presumably no higher authority to which could be taken for adjudication the question of the legality of any particular measure taken.

⁷ See p. 1292, column 1.

⁸ "The duration for payments of reparation ought to disappear, if possible, with the generation which made the war."

⁹ See, on most points, Annex II of Part VIII of the treaty.

agent appointed to fix, collect, and distribute Germany's reparation payments. Its duties and powers are, however, more or less strictly defined.

Under the terms of the treaty the constitution of the commission is somewhat novel. It consists of one delegate each from Great Britain, France, Italy, the United States, Japan, Belgium, and the Serb-Croat-Slovene State. Only five of these, however, may take part and vote at any particular session. The first four powers named¹⁰ have this privilege at all sessions; but of the last three only one participates, each one when matters specially affecting it are under discussion. Thus Japan is included when maritime matters are being discussed, Belgium when restoration of her devastated regions is concerned. Its proceedings are to be in private unless determined otherwise for special reasons. It is not "bound by any particular code or rules of law or by any particular rules of evidence or of procedure, but shall be guided by justice, equity, and good faith." Hence its methods of procedure could scarcely be prescribed in more elastic terms, or better protected from possible juridical criticism. The commission is to continue in existence until all amounts due are received and distributed by it among the Allies.

The most important task allotted to the commission was the determination of Germany's total liability under the treaty and the arrangement of a "schedule prescribing the time and manner for securing and discharging the entire obligation within a period of 30 years from May 1, 1921." Clearly, this was an undertaking requiring an immense amount of investigation and, in addition, a still larger amount of foresight. The results of this work were to be communicated to Germany not later than May 1, 1921, and during the course of its work Germany was to be given an opportunity to be heard by the commission. In addition, this side of the commission's work involved the determination of Belgium's debts to the Allies, with interest thereon at 5 per cent, which Germany was to pay.

Beyond these, in the matter of reparation in kind, the commission was intrusted with the duty of supplying Germany with the tonnage and specifications of ships to be built and delivered; the total requirements of the Allies in the shape of animals, machinery, reconstruction materials, etc.; the amounts of coal required to be delivered; and the requirements of the Allies in the form of dyestuffs and chemical drugs. This function was, of course, mainly of a routine nature, since the figures com-

municated would in general be a mere aggregation of the individual claims of the Allies. Nevertheless, in view of certain restrictions on the totals to be demanded (which are dealt with in their appropriate place) the problem might resolve itself into one of the allocation of available commodities between the various claimants.

Furthermore, to the commission was allotted the duty of valuing the receipts on account of reparation. These included all the various kinds of commodities (except coal) to be delivered, the rights and properties in the Saar district, the Government properties taken over with ceded areas,¹¹ and in general any "transfers under the present treaty of property, rights, concessions, or other interests." Again, the commission was to decide what portion of the German Federal and State debts should be taken over by the Powers to whom territory was ceded.¹²

The management of the bond issues to be made by Germany, both as required in the treaty and as later to be determined by the commission, was placed in the hands of that body.

Besides these various duties, the commission was given other powers of considerable value—powers which subsequently it has had frequent cause to exercise. In the first place, to the commission itself was given the right to interpret the reparation clauses of the treaty. Secondly, it might from time to time review Germany's resources and capacity to pay. In the course of such examination it is required to ascertain that reparation shall have a claim prior to the service or liquidation of any domestic loan, and that German taxation is as heavy "proportionately" as that of the Powers represented on the commission. In accordance with these periodic investigations, the commission was given power to extend the date or modify the form of payment. This latter power is somewhat limited by the proviso that, for certain very important steps, a unanimous vote of the commission is required. Such actions include the postponement of any payment beyond 1930, the amount and conditions of issues of bonds and the time and manner of distributing them, the interpretation of provisions in the reparation part of the treaty, and the cancellation of any part of the debt. Further, in no case might it cancel any part of the debt unless specifically authorized so to do by the component governments. Thirdly, the commission was given complete power over German exports of gold until May 1, 1921. Up to that date no gold was permitted to leave the country without

¹⁰ The United States has not availed itself of this right, being represented, however, at the deliberations of the commission by an unofficial observer.

¹¹ Art. 256. See p. 1293, column 1. ¹² Art. 254. See p. 1295, column 1.

the approval of the Reparation Commission. And, lastly, for the period of one year the commission was given the power to name any rights or interests held by German nationals in any public utility undertakings in Russia, China, Turkey, Austria, Hungary, Bulgaria, or former German territory which it could require the German Government to acquire and hand over to it, the German Government assuming the obligation of indemnifying its dispossessed nationals.¹³ The rights and interests so acquired would be valued by the commission itself and such value would be credited to Germany's reparation account. It is not clear in whose power lay the interpretation of this particular provision, which is included in the financial clauses,¹⁴ and not in the reparation part, of the treaty, but it is perfectly obvious that enormous powers of expropriation were thereby placed in the hands of the commission.

C. WHAT GERMANY IS TO PAY.

In addition to actual damages for which Germany was liable to pay compensation, there were two other liabilities imposed on her. Firstly, she was to restore all cash, animals, securities, and property seized, in such cases in which they could be identified. Secondly, she agreed to pay the expenses of the army of occupation and the salaries and expenses of the Reparation Commission. The size of the second liability will be better realized when the time comes to consider the carrying out of the treaty.

The main item in the account, however, is that composed of "damage done to the civilian population of the Allies and their property * * * by land, sea, and from the air." This damage was very specifically defined in a later section of the treaty.¹⁵ The categories of damages for which Germany was to make compensation were as follows:

- (1) Damage to injured persons and surviving dependents by personal injury to or death of civilians.
- (2) Damage to civilians and dependents caused by cruelty, violence, or maltreatment (including the results of imprisonment, deportation, internment, exposure at sea, forced labor).
- (3) Damage to civilians and their dependents by acts injurious to health, capacity to work, or honor.
- (4) Damage by maltreatment of prisoners of war.

¹³ Art. 260. The treaty contains several other provisions affecting private property rights. For example—art. 297(b)—the Allies "reserve the right to retain and liquidate all property, rights, and interests belonging * * * to German nationals, or companies controlled by them, within their territories, colonies, possessions, and protectorates, including territories ceded to them by the present treaty." Further (art. 74) the French Government was empowered to "retain and liquidate" all the property, rights, and interests which German nationals, or societies controlled thereby, possessed in Alsace-Lorraine on Nov. 11, 1918. Germany agreed to compensate directly her dispossessed nationals, and there was no corresponding credit to be given to reparation account.

¹⁴ Part IX.
¹⁵ Annex I.

(5) Capitalized cost of pensions to disabled and dependents, on the basis of the French scales at the time of the treaty.

(6) Assistance rendered by the allied and associated Powers to prisoners of war and their dependents.

(7) Separation allowances, on the basis of the French scales at the times of payment.

(8) Damage for forced or unjustly paid labor.

(9) Damage to property of the allied and associated Powers or of their nationals through seizure, injury, or destruction.

(10) Damage in the form of levies, fines, etc., imposed by Germany on the civilian population.

Over and above these charges Germany, as stated above, was to reimburse Belgium for all sums borrowed from the allied and associated Powers up to November 11, 1918, together with interest at 5 per cent per annum from the dates of the granting of the loans. This amount is payable in gold marks on May 1, 1926, or (at Germany's option) on any previous May 1.

In addition, interest at the rate of 5 per cent per annum was to be charged against Germany from May 1, 1921 (the date of the fixing of the amount), on the total amount due to the Allies, less payments up to that date and less the amount covered by bonds already issued to the Reparation Commission. Another item of interest to be added to the total due from Germany was that on expenditures arising out of the repair of material damage undertaken between November 11, 1918, and May 1, 1921.

The fact that no definite amount was stated in the treaty as representing Germany's total liability did not mean that until the amount was fixed (i. e., until May 1, 1921) there should be no payments. Partly in order to cover current expenses, Germany was to pay during 1919, 1920, and the first four months of 1921 a sum of 20 billions of gold marks, the manner of payment to be determined by the commission. Out of this amount would be paid the expenses of the armies of occupation as well as the cost of such goods and raw materials as the commission found it necessary for the sake of economic efficiency to import. Any balance remaining over would be credited to Germany's reparation account.

It is fairly clear from a study of these provisions that the Peace Conference recognized, on the one hand, the validity of the French contention that it was impossible at the moment to estimate with any reasonable precision the claims to be laid against Germany, and, on the other hand, the fact that it was impossible to determine for some 30 years ahead a nation's capacity to produce a net surplus to contribute to the reparation of the Allies' damages. Hence the treaty's elasticity with reference to this matter. Hence, on the one hand, the postponement of the determination of Ger-

many's liability and, on the other hand, the various provisions for postponement of installments, for periodic revision of the claims, and for cancellation of any portion of the liabilities.

D. HOW GERMANY IS TO PAY.

In this section the subject becomes a matter of provisions for elasticity of another sort—qualitative elasticity. And here there are three main considerations underlying the whole of this portion of the treaty. Firstly, the needs of the Allies in the way of commodities were given prior claim. Secondly, the maintenance of German efficiency was to be sought. And thirdly, the avoidance of injury to the industries of the Allies by way of loss of markets was aimed at. Consequently many of the provisions relating to the supplying of commodities to the Allies were made in the form of options, which might or might not be exercised, according as the Allies weighed the benefits and injuries which might follow from their fulfillment.

As a covering clause, it was laid down that payment might be required in gold, chattels, properties, commodities, business rights, concessions, ships, securities of any kind, or currencies of any State—their values in gold to be determined by the commission. Furthermore, it was stated specifically that credit should be given to Germany in respect of the following:

(a) Any final balance in favor of Germany under Part III, Section V, which refers to the cession of Alsace-Lorraine; Part X, Section III, which refers to the settlement of debts between nationals of the late enemy countries through clearing houses; Part X, Section IV, which provides for compensation for damages or injury to or seizure of property rights in enemy countries.

(b) Amounts due to Germany in respect of transfers under Part III, Section IV, dealing with the cession of the Saar Basin; Part IX, which has to do with property, etc., ceded with German territory; Part XII, which provides for the surrender by Germany of some of her tugs and boats plying on rivers internationalized by the treaty (Rhine, Elbe, Oder, etc.).

(c) "Amounts which, in the judgment of the Reparation Commission, should be credited to Germany on account of any other transfers under the present treaty of property, rights, concessions, or other interests." But in no case was credit to be given for cash, animals, securities, and property restored to their owners from whom they had been seized.

In accordance with the plan agreed upon at the Peace Conference the main bulk of Germany's indebtedness was to be covered by bond issues as an acknowledgment of the obligation. The details of the issues were as follows:

A first issue of 20 billions of gold marks, in bearer bonds, to be delivered to the commission forthwith, payable without interest on or before May 1, 1921. These bonds were to be amortized by the payment of the 20 billions of gold marks due prior to that date.

A second issue of gold bearer bonds, to be delivered forthwith, to the amount of 40 billions of marks, bearing interest at the rate of 2½ per cent per annum during the years 1921 to 1926, and at 5 per cent thereafter, with the addition of a further 1 per cent, beginning 1926, for amortization.

An undertaking, in writing, to be handed to the commission at once, to issue, at such time as the commission was satisfied of Germany's ability to meet the interest and sinking-fund obligations involved, a further 40 billions of gold marks of 5 per cent bearer bonds, of which the time and mode of payment of interest and principal would be as ordered by the commission.

These bonds, when distributed by the commission, might be disposed of outright to individuals in place of Governments. Germany's liability to the Governments would be then by so much reduced, being transferred to the individual holders of the bonds. In this manner the circulation of the bonds is perfectly in accordance with the provisions of the treaty.

The payments in kind which Germany was to make, or might be called upon to make, were very varied and were stated with careful exactitude. The various categories will be considered in detail.*

1. *Reconstruction materials.*¹⁶—By the end of 1919 the allied Governments were to file with the Reparation Commission lists showing (a) what animals, machinery, equipment, tools, etc., destroyed during the war, they desired to have replaced by similar articles; and (b) what reconstruction materials, machinery, furniture, etc., they desired to have Germany manufacture for them for purposes of restoration.

The commission, in view of these requests, would then formulate their total demands and present them to Germany. As a check on the commission, however, there were inserted in this portion of the treaty, not only a general principle, stating that Germany's own requirements were to be considered,¹⁷ but also a special requirement that articles actually in use in Germany should only be seized if there were no free stock available. Furthermore, in no case should more than 30 per cent of the equipment, etc., of any one establishment or undertaking be seized.

The following immediate advances of animals were required of Germany, the details of breed, etc., being specified:

	To France.	To Belgium.
Horses.....	30,500	10,200
Bulls.....	2,000	2,000
Milch cows.....	90,000	50,000
Heifers.....		40,000
Rams.....	1,000	200
Sheep.....	100,000	20,000
Goats.....	10,000	
Sows.....		15,000

¹⁶ Annex IV.

¹⁷ See p. 1290, column 2.

The delivery of agricultural machinery, as provided for in the January, 1919, renewal of the armistice agreement, covering a wide variety of machines, was to continue. The commission, of course, was to fix the value of all such deliveries and give credit for the same to Germany's reparation account.

2. *Coal, etc.*¹⁸—Some large options were accorded to the Allies by Germany to demand the delivery of vast quantities of coal. These options were as follows:

To France—delivery of 7,000,000 tons per annum for 10 years, plus an amount equal to the deficit in the actual production of the mines of the Nord and Pas de Calais in each year, as compared with their pre-war annual production. The total amount delivered, however, was not to exceed 20,000,000 tons in any of the first five and 8,000,000 tons in any one of the last five years. Delivery during each of the three years following the treaty of 35,000 tons of benzol, 50,000 tons of coal tar, and 30,000 tons of sulphate of ammonia.

To Belgium—delivery of 8,000,000 tons of coal annually for 10 years.

To Italy—4,500,000 tons of coal in the year ending June, 1920; 6,000,000 in the next year; 7,500,000 in the following; 8,000,000 in 1922-23, and in each of the succeeding six years, 8,500,000 tons.

The prices for coal were not to be fixed by the commission, but were prescribed in the treaty. Those for benzol, coal tar, and sulphate of ammonia were to be the same as those charged to German nationals. Prices for sea-borne coal were to be the same as the German export price f. o. b. German ports, or British export price f. o. b. British ports, whichever were the lower. For overland coal, the German pit-head price to German nationals, plus the lowest freight to the frontiers, provided that the pit-head price were not greater than that of British coal for export. The Reparation Commission was to notify Germany of the deliveries required and to credit Germany's account with the value thereof.

3. *Saar Basin.*¹⁹—All the coal deposits, concessions, machinery, equipment, means of communication, and buildings belonging to the mines in the district, as defined in the treaty, were ceded to France for a period of 15 years, their value to be assessed by the Reparation Commission and Germany to indemnify her dispossessed nationals.

4. *Dyes and chemical drugs.*²⁰—Germany gave the Allies the option to require as part of reparation payments such dyestuffs and chemi-

cal drugs as the commission might fix, but in no case were the amounts demanded to exceed 50 per cent of the German stock of each particular kind demanded. In addition, until January 1, 1925, the Allies were given the option to demand delivery during any particular six months of amounts of specified kinds up to 25 per cent of the German production of those kinds in the preceding six months.

5. *Shipping.*²¹—Germany agreed to make good, ton for ton and class for class, all allied merchant ships and fishing boats lost or damaged owing to the war, and at the same time "waived all claims of any description against the allied and associated Governments in respect of the detention, employment, loss, or damage of any German ships or boats." Hence all German shipping already in the hands of the Allies was to become their property, on condition that each paid into the reparation account the excess of the fair value of the ships retained over that of the ships apportioned to it to replace war losses.

By the treaty Germany, as a contribution toward this obligation, ceded to the Allies the property in all German merchant ships of 1,600 tons gross and upward; one-half of the German merchant ships between 1,000 and 1,600 tons gross; one-fourth of the German steam trawlers; one-fourth of the other German fishing boats (fractions being calculated in terms of tonnage and totals including shipping under construction). All of this shipping was to be handed over to the Allies within two months of the treaty's coming into force. Germany, moreover, undertook to build for the Allies during the next five years such shipping as should be specified by the commission.

In addition, claims were waived to all German vessels sunk during the war which later might be salvaged, and, as regards shipping, Germany was to restore within two months all identifiable boats of inland navigation coming into her possession since August 1, 1914, and to make good the losses of the Allies in river craft by cession of an equal amount of her own, provided that the amount should not exceed 20 per cent of Germany's river fleet as on November 11, 1918.

6. *Submarine cables.*²²—The treaty named certain specific submarine cable rights belonging to Germany which she was to renounce in favor of the principal allied and associated Powers,²³ their value being credited to reparation account.

²¹ Annex III.

²² Annex VII.

²³ Great Britain, France, Italy, United States, Japan.

¹⁸ Annex V.

¹⁹ Art. 45.

²⁰ Annex VI.

7. *Miscellaneous.*—In addition to the above, Germany was to be credited with—

(a) The value of nonmilitary material handed over at the time of the armistice.²⁴

(b) The value of public utility interests demanded by and delivered to the Reparation Commission.²⁵

(c) The value of German Government property in areas ceded to the Allies, which was to be paid direct to the commission by the recipient Governments (France²⁶ and Belgium being exempted from this provision).

(d) The proportion taken over by the recipient Governments with ceded areas of the debt of the German Empire and of the States to which the areas belonged, as these debts stood on August 1, 1914, the proportion taken over to be determined by the commission and paid direct to the commission (France being exempted from this provision respecting Alsace-Lorraine, in consideration of Germany's having refused to take over a part of the French debt in 1871).

Following the transmission to Germany of the draft of the treaty, a long memorandum of "observations" thereon was prepared by the German peace delegation and remitted to the Allies. Count Brockdorff-Rantzau, spokesman for Germany, therein made an offer of a lump sum of 100 billions of marks, 20 billions thereof being payable by May 1, 1926, the remainder, without interest, over 50 to 60 years. It was pointed out by the Allies, however, in rejecting this proposal, that at 6 per cent the present value of the amount would be only about 30 billions of marks. The Allies' reply made only minor modifications in the treaty, but gave Germany an opportunity to submit within four months from the signing of the treaty a scheme, together with estimates, evidence, and arguments, for the liquidation of her reparation indebtedness by a lump-sum payment, by the carrying out of reconstruction work, by supplying labor, materials, technical service, etc. Such scheme and evidence, it was stated, would be carefully considered by the Allies, and a reply given within two months.

NOTE.—For purposes of calculating the periods mentioned in the treaty, the date is used when the first procès verbal of ratification by Germany and three of the principal allied and associated Powers was completed.²⁷ The treaty was signed on June 28, 1919, and was ratified as follows: Germany—July, 1919. Great Britain, France, Italy, and Japan—October, 1919. On the other hand the "date of the coming into force of the treaty" is for each Power the date of ratification by that Power.²⁷

ADDENDUM—OTHER TREATIES.

The various other treaties which were concluded subsequently to the Versailles treaty are,

²⁴ Art. 250. This includes various items, two of the most important being: (Art. VI) "Stores of food of all kinds for the civil population, cattle, etc., shall be left in situ;" (Art. VII) "5,000 locomotives and 150,000 wagons in good working order, with all necessary spare parts and fittings, shall be delivered to the associated Powers within 31 days." Further, 5,000 motor lorries were to be delivered within 36 days.

²⁵ Art. 260, see p. 1292, column 1.

²⁶ "In view of the terms on which Alsace-Lorraine was ceded to Germany in 1871." The reason for Belgium's exemption is not specifically stated.

²⁷ Miscellaneous provisions.

in comparison with it, of relatively small importance. That between the Allies and Bulgaria, signed on November 29, 1919, at Neuilly, imposed a payment of 2½ billions of gold francs as reparation, in half-yearly payments. The July 1, 1920, and January 1, 1921, payments were to represent interest at 2 per cent on the total from January 1, 1920. Thereafter, each half-yearly payment would include interest at 5 per cent on the outstanding capital sum, the whole of which would be extinguished by January 1, 1958. An interallied commission was to be set up at Sofia to consist of one member each from the British Empire, France, and Italy, and of a nonvoting member representative of Bulgaria. In the event of default in reparation payments, this body might control, to any extent and for any period it might think necessary, the collection of taxes, sources of revenue, disbursement of the proceeds, etc. Reparation payments were to be made through this body to the Reparation Commission set up under the Versailles treaty. While the interallied commission had no power of itself to reduce or postpone payments, it might recommend to the Reparation Commission a reduction of any particular payment, or of the capital sum, and the latter might grant a reduction or postponement by a majority vote. Bonds covering a part or the whole of the amount due might be called for by the Reparation Commission, which might dispose of them as it thought fit, such bonds being a direct obligation of the Bulgarian Government.

The treaty with Austria, signed at St. Germain-en-Laye on September 10, 1919, was, in its general provisions, almost identical with the Versailles treaty. It recognized Austria's responsibility for damages caused by her aggression and her inability to pay the whole cost thereof. The authority for the execution of the reparation provisions was the commission appointed under the Versailles treaty, with the added provision that a special section of the commission was to be appointed to deal with Austria. It was given only consultative powers, except so far as the commission chose to delegate other powers to it. By May 1, 1921, the commission was to determine Austria's total liability, and by that date Austria was to pay such an amount as the commission demanded, out of which, as in the case of Germany, would be paid the expenses of the forces of occupation and the cost of approved imports. The Austrian section of the commission was to be composed of delegates from the United States, Great Britain, France, Italy, Greece, Poland, Rumania, the Serb-Croat-Slovene State, and Czechoslovakia. Of

these the first four were in voting to have two votes each. The remaining States were to have one common representative. In working out the claims against Austria the commission was ordered to take account of the diminution of the country's resources resulting from the territorial provisions of the treaty. The system of covering the indebtedness by bonds, as set out in the Versailles treaty, was applied with small modifications to Austria.

As regards payments in kind demanded forthwith, several categories of demands were dealt with. The Austrian merchant fleet not being large enough to compensate the Allies for all their damages, the whole of that fleet was ceded to the Allies, together with river craft up to 20 per cent of the total possessed; all this to be delivered within two months.

The following animals were to be handed over as an immediate advance:

Kind of animals.	To Italy.	To the Serb-Croat-Slovene State.	To Rumania.
Milch cows.....	4,000	1,000	1,000
Heifers.....	1,000	300	500
Bulls.....	50	25	25
Calves.....	1,000	1,000	1,000
Working bullocks.....	1,000	500	500
Sows.....	2,000		
Draft horses.....		1,000	1,000
Sheep.....		1,000	1,000

In addition, during the six months following the treaty, such furniture as the commission demanded was to be supplied.

Five-year options were accorded the Allies to demand annual delivery of timber and timber manufactures, iron and iron alloys, and magnesite, these amounts to bear the same relation to the Allies' pre-war annual importations from Austria-Hungary as the resources of the present Austria bore to those of the pre-war Austro-Hungarian Empire.

The treaty with Turkey was signed at Sèvres on August 10, 1920. All reparation claims, except as provided elsewhere, were waived by the Allies, owing to the large reductions in Turkish revenues due to the territorial rearrangements made under the treaty. A financial commission was created, consisting of delegates from France, the British Empire, and Italy, with a consultative Turkish representative, with large powers over the economic life of the country. It was to approve the budgets presented to the Parliament, to supervise execution thereof, to regulate and improve the currency, and to conserve and increase Turkey's resources. This commission was to have at its disposal all the Turkish revenues, which were to be applied in the first instance to the payment of its own salaries and expenses, and in

the second of the expenses of the forces of occupation. Turkey was to pay for all loss or damage suffered by civilian nationals of the Allies in respect of their persons or property through the negligence or the action of Turkish authorities prior to the treaty. Furthermore, Turkey agreed to make reparation to the European Commission of the Danube for damages sustained by that body. At the same time, all claims held against Turkey by Germany, Austria, Bulgaria, and Hungary were transferred to the Allies.

The United States Senate having voted against ratifying the treaty of Versailles, a separate bipartite treaty was concluded with Germany at Berlin, signed on August 25, 1921, and ratified by both parties in October of that year. The brevity of this treaty is due to the fact that it consisted in the main of a reservation of most of the rights accruing to the United States by the terms of the Versailles treaty, together with a repudiation of the "entanglements" and responsibilities into which it led them. The preamble to the treaty of Berlin contained a part of the joint resolution of Congress, approved by the President on July 2, 1921, from which the following is quoted:

* * * There are expressly reserved to the United States and its nationals any and all rights, privileges, indemnities, reparations, or advantages, together with the right to enforce the same, to which it or they have become entitled under the terms of the armistice signed November 11, 1918, or any extension or modification thereof, or which were acquired or are in the possession of the United States of America by reason of its participation in the war or to which its nationals have thereby become rightfully entitled, or which under the treaty of Versailles have been stipulated for its or their benefit; or to which it is entitled as one of the principal allied and associated Powers, or to which it is entitled by virtue of any act or acts of Congress, or otherwise.

Germany accords these rights, which are mentioned specifically as being those contained in Section I, Part IV, and in Parts V, VI, VIII, IX, X, XI, XII, XIV, and XV of the Versailles treaty. Further,

* * * while the United States is privileged to participate in the Reparation Commission, according to the terms of Part VIII of that (the Versailles) treaty, the United States is not bound to participate in any such commission unless it shall elect to do so.

REFUNDING LOAN OF OCTOBER 16, 1922.

On October 9 the Secretary of the Treasury issued the following letter to banks and trust companies in the United States:

I am sending you herewith a copy of the official Treasury Department circular announcing the offering of 4½ per cent Treasury bonds of 1947-1952, for which subscription books open to-day. The offering is for \$500,000,000, or there-

THE FIRST THREE YEARS OF GERMAN REPARATION.¹

PART II.—FIXING GERMANY'S LIABILITY (JULY, 1919-MAY, 1921).

For a period of about a year after the signing of the treaty of Versailles the question of reparation, apart from the deliberations of the commission, was almost completely neglected. The powers during that time were concerned mainly with ratification proceedings and other domestic affairs, and the disarming of Germany. This last matter was the immediate reason² for the calling of the first of the long and complicated series of official conferences and unofficial parleys with which this and succeeding chapters have to deal. The history of these negotiations—some confined to the Allies, some including German representatives—is difficult to follow, owing to overlapping of functions and to the lack, in several cases, of official pronouncements on the results of the conversations.

There were underlying the discussions three prominent points of view. The Italian delegates from the start favored a frank revision of the treaty. The French, on the other hand, held out for its strict fulfillment. The British adopted an elastic policy, best expressed by Mr. Lloyd George's words in the House of Commons, in replying to a question as to the work before the projected Spa conference, that the conference was to deal in no way with revision, but only with application. Hence it was not—and, indeed, could not be logically—until after the promulgation of the decision of the Reparation Commission that any true modifications of the treaty were decided upon, except as regards immediate payments.

The first conference, April 19-26, 1920, at San Remo, attended by the allied premiers, was concerned mainly with the Turkish treaty and the German military establishments. It was notable, however, for a suggestion made by Mr. Lloyd George that Germany should be invited to send delegates to discuss with the supreme council matters arising out of the treaty. Accordingly, it was agreed to hold a joint conference at Spa in the following month. At the same time an allied manifesto was issued, pointing out that Germany had not seized the opportunity, presented to her during the

Versailles negotiations,³ of putting forward her own estimate of the reparation to be made, nor of sending experts to the devastated regions with this end in view, nor of offering a lump sum in settlement of her reparation liabilities.

Accordingly, the premiers met at Lympe, May 14-16, for the purpose of formulating plans as to the policy to be pursued at Spa. Here France obtained what might have been an important concession, for, though her priority claims were disallowed, it was agreed that the payment of her debt to England should be made *pari passu* with payments of reparation by Germany. The recognition of the vital connection between reparation and foreign debts is not, then, merely a recent development. As it happened, however, this particular understanding was set aside a month later, owing to America's unwillingness to make similar concessions.

There were now, then, two sets of deliberations going on with regard to reparation—those of the Reparation Commission and those of the supreme council. To these the latter added a third—a commission of French and British experts to fix, prior to the Spa conference, a minimum total of Germany's liabilities, to determine methods of payment, examine the possibility of capitalizing the debt, and to establish conditions for the division of the receipts between the Allies. In considering Germany's capacity to pay, this commission was to take note of several facts: First, that there appeared to be a deficit in Germany's current budget of 21,000,000,000 marks; second, that the German merchant fleet had decreased in gross tonnage from 5,500,000 in 1913 to 500,000 in 1920; third, that the production of coal, now that Alsace-Lorraine and the Saar had been separated from Germany, had fallen 50 per cent from the 1913 figure; and fourth, that imports had diminished in weight by about three-fourths from their 1913 level.

The Spa conference having been postponed on account of the German elections, the premiers met again at Lympe on June 20 and at Boulogne on June 21 and 22. During these conversations a scheme was discussed under which a minimum annual payment, to be made in gold, would become the basis of an international loan, a part of which would be allotted to Germany. The idea of a minimum payment was adopted in order that, if Germany were to prosper, her payments could be increased accordingly. The minimum determined upon here was 3,000,000,000 gold marks, and the

¹ This is the second of a series of four articles, the first of which appeared in the November Bulletin, pp. 1288-1293, dealing with the history of the reparation problem from the treaty of Versailles to the present time. Subsequent articles will deal with the developments since May, 1921.

² In April, 1920, following political disturbances in Westphalia and the Ruhr Valley, France, as a protest against the concentration of German troops there to an extent which was in contravention of the terms of the treaty, occupied Frankfurt and Darmstadt.

³ See November BULLETIN, p. 1295.

period during which it was payable was 35 years.

A further meeting was held at Brussels, July 2-4, to discuss the matter of the division of the reparation payments among the Allies. Here a previous agreement, as between France and Great Britain (55:25), made earlier in the year, was revised, the new distribution being as follows (in percentages): France, 52; Great Britain, 22; Italy, 10; Belgium, 8; Greece, Rumania, the Serb-Croat-Slovene State, and others, a total of 6½; Japan and Portugal, three-fourths each. Belgium's priority on the first two and one-half billions of marks paid, as agreed upon and announced by Clemenceau, Wilson, Lloyd George, and Sonnino in July, 1919, and the transfer to Germany of her liabilities or debts to the Allies, were confirmed. Furthermore, Italy was given priority, up to £200,000,000, on the payments received from Hungary and Bulgaria.

These proportions and priorities were finally agreed to at the Spa conference, July 5-16. It was further agreed that one-half of the receipts from Austria, Hungary, and Bulgaria should be divided in the same proportions as the German payments, while of the other half Italy should receive 40 per cent and Greece, Rumania, the Serb-Croat-Slovene State, etc., the remaining 60 per cent. Certain German credits in foreign countries were handed over to Belgium as covering for her prior claim of two and one-half billions of marks. These included 400,000,000 kroner in Denmark received by Germany in consideration of the cession of the northern part of Schleswig-Holstein, and also the excess value of German property confiscated in the United States over American property confiscated in Germany. Immediately after the satisfaction of Belgium's prior claim the Allies were to be reimbursed for their loans to Belgium.

Apart from these secondary decisions, nothing was accomplished at Spa with reference to reparation, the chief matters under discussion being the disarmament of Germany and the coal deliveries. The latter will be dealt with in the next article. On the whole, the Spa conference proved disappointing in its results, but it marks a definite step forward, in that for the first time German representatives were permitted to take part in the deliberations.

The first gathering of major importance, however, was that of the allied and German experts at Brussels, December 16-22, 1920. Here definite progress was made, though no final decisions could be arrived at. A good deal of information as to Germany's internal situation was supplied, and a definite preference

for payments in kind was voiced by the German experts. The proposal most generally favored was (according to the London Times correspondent) to demand an annual payment of 3,000,000,000 gold marks for 5 years, with the provisional suggestion of 6,000,000,000 for the next 5 years, and 7,000,000,000 for the following 32 years. The Reparation Commission would have power to postpone a part of the additional annuities of the last 37 years and to fix interest payments thereon. As guaranties of payment, it was proposed that Germany deposit with the commission industrial securities up to a value of 5,000,000,000 gold marks, which could be sold in case of default; and that the Allies be given a claim upon the gross receipts of the German customs, with power to veto any modifications of the tariff which might tend to lessen the receipts. With these tentative conclusions the conference was closed, but not before a list of 41 questions had been submitted to the Germans, the answers to which were intended to supply, and did in fact supply, fuller valuable data as to the internal condition of the country.

The supreme council met again in conference at Paris January 24-30, 1921. At the outset of the conference, M. Doumer, a French delegate, suggested that reparation be fixed at 240,000,000,000 gold marks, to be paid as an annuity of 12,000,000,000 for 44 years. This, clearly, was far above the experts' proposal for an annuity of 3,000,000,000 for the first five years. At the same time it was claimed that under the Boulogne agreement France could receive only about 65,000,000,000 gold marks. Finally a compromise was effected between the Brussels and Boulogne plans, with the added element of a levy on German exports. The annuities were to be as follows: Two of 2,000,000,000 gold marks; three of 3,000,000,000 gold marks; three of 4,000,000,000 gold marks; three of 5,000,000,000 gold marks; 31 of 6,000,000,000 gold marks—the total being 226,000,000,000, payable in 42 years from May 1, 1921. In case of payment being made in advance, Germany was to receive a discount of 8 per cent on the first two annuities, 6 per cent on the next two, and 5 per cent on the remainder. Germany was to issue bearer bonds covering these annuities. In addition to these fixed annuities, however, Germany was to pay an amount equal to a tax of 12 per cent ad valorem on the whole of her exports, this tax being estimated to yield about 1,000,000,000 marks per annum. A power additional to those named in the treaty was given to the Reparation Commission at this point, Germany being permitted to embark on no credit operation abroad without the commission's approval.

The conference also enunciated the "sanctions" it was prepared to enforce should Germany default in her payments as set out in the above scheme. These comprised seizure of all or a part of the German customs by the Reparation Commission; taking over of the administration and collection of the customs by the Reparation Commission; imposition of higher tariffs, at the instigation of the Reparation Commission; taking of "such measures as they think justified" by the allied powers, when notified by the commission of Germany's default. The terms here outlined were submitted to Germany for consideration, her delegates to present themselves at London in a month's time to give her reply.

Thus, on March 1 to 7, 1921, in London, for the first time since Spa, the German delegates met the supreme council and the other allied delegates. The Germans declared that fulfillment of the Paris proposals was impossible, and submitted a counterscheme of their own. Their experts, however, adopted the Paris proposals as the basis of their calculations, discounting the fixed annuities at 8 per cent, and arriving at a present value of 50,000,000,000 gold marks. The payments already made they estimated at 20,000,000,000, thus leaving 30,000,000,000 remaining to be paid, a sum which, they claimed, was as much as Germany could possibly pay. Most helpful, perhaps, was the suggestion that some of the earlier installments be paid in kind and labor and the statement that Germany was prepared to assist in the physical work of reconstruction. In spite of Germany's unconditional agreement at Versailles to pay to the utmost of her capacity,⁴ the London delegation laid down conditions upon fulfillment of which she would agree to pay the proposed 30,000,000,000 gold marks. These were as follows:

- (1) Upper Silesia was to remain German.⁵
- (2) Restrictions on commercial intercourse between Germany and the rest of the world were to be removed.
- (3) Germany was to be released from all further payments or deliveries under the treaty.
- (4) The Allies were to renounce their rights to liquidate German property.⁶

Furthermore, the means wherewith Germany was to commence payment was to be a loan of 8,000,000,000 gold marks at a low rate of interest. An annuity of 1,000,000,000, together with interest on the loan, would be paid for five years, and in the meantime a scheme would be drawn up for the liquidation of the outstanding balance.

The London Times quotes from an "authoritative analysis" of the proposals, the following summary, the main features of which will show their inacceptability to the Allies:

- (1) The 8 per cent rate of discount was only applicable to the first two annuities.
- (2) The German plan ignored the variable annuities dependent on exports.
- (3) The Paris annuities were proposed as an addition to payments already made.
- (4) The Reparation Commission assessed the deliveries already made at a total value of less than 10,000,000,000 gold marks.⁷
- (5) While discounting payments at 8 per cent, Germany had reckoned on a loan at 5 per cent or less.
- (6) The German proposals included the relief of the German securities from taxation in the country of issue.
- (7) Assuming the payments after the first five years to be 3,000,000,000 for 25 years, the present value would have been about 27,000,000,000,⁸ whereas the present value under the Paris plan, exclusive of the variable annuities, would have been, at 8 per cent, 53,000,000,000; at 5 per cent, 83,000,000,000.

Hence it is not surprising that the Allies rejected this proposal, and allowed Germany four days in which to signify her agreement to the Paris plan. In Mr. Lloyd George's speech delivering the ultimatum he declared that the Allies had good reason to assume that the German Government was "deliberately in default;" and that therefore, in the event of an unfavorable reply, the Allies would proceed to occupy Duisburg, Ruhrort, and Düsseldorf; to pass legislation compelling allied nationals to pay to their Governments, instead of to the German seller, on account of reparation, a proportion of the price of goods imported from Germany; to insist on payment to the Reparation Commission of customs collected on the external frontiers of the occupied territories, and to levy and collect customs at the Rhine bridge-heads occupied by the Allies.

During the four days' grace an alternative proposal to pay 3,000,000,000 gold marks annually for 30 years, together with a 30 per cent tax on exports, was presented to Germany and rejected. At the end of that time Germany made a counter-proposal to pay according to the Paris plan (including the 12 per cent export levy) for five years, during which a comprehensive scheme for 30 years of payment was to be negotiated. But the conditions that Upper Silesia remain German and that the restrictions on German trade be abolished were retained, and hence the proposals were

⁷ Up to Apr. 30, 1921, Germany's payments, according to the latest figures, were as follows:

	Gold marks.
Payments in cash and sales of war material.....	112,000,000
Deliveries in kind.....	1,251,000,000
Armistice deliveries.....	1,183,000,000
Submarine cables.....	49,000,000
Real estate, Saar mines, etc., and debts of German States assumed by powers to whom ceded.....	2,504,000,000
Total.....	5,099,000,000

⁸ But see note 7 on p. 1427.

⁴ Treaty, article 236.

⁵ A plebiscite was due in Silesia, under article 88 of Part II of the treaty.

⁶ Treaty, articles 260 et al. See November BULLETIN, p. 1292.

rejected. Accordingly, the three specified German cities east of the Rhine were occupied, and the Inter-Allied Rhineland High Commission took over the collection of customs in the occupied area. The Allies forthwith proceeded with the threatened legislation. The British reparation recovery bill, requiring importers of goods from Germany to pay up to 50 per cent of the price of the imported goods direct to the customs officials, passed its third reading on March 19.

The next move fell to the German Government, which, on April 24, handed to the American chargé d'affaires at Berlin a set of proposals which, they declared, represented, "according to their convictions, * * * the utmost limit which Germany's economic resources could bear, even with the most favorable developments," and which, if it found them acceptable, the United States Government was requested to lay before the Allies. The proposals consisted of 12 points, summarized as follows:

(1) Germany would recognize 50,000,000,000 gold marks as her total liability, to be liquidated by suitable annuities totaling not more than 200,000,000,000 gold marks.

(2) The raising of an international loan, in which Germany would participate.

(3) Germany to pay interest and amortization on the amount uncovered by the loan, with a maximum of 4 per cent.

(4) Amortization payments to vary with German prosperity, as shown by an agreed index.

(5) Germany to assist in rebuilding work.

(6) Germany to supply other reconstruction materials and services.

(7) Germany to pay at once 1,000,000,000 gold marks, in the shape of 150,000,000 in gold, silver, and foreign bills, and 850,000,000 in treasury bills, redeemable within three months in foreign bills and other foreign values.

(8) Germany, the Allies and the United States being agreeable, to take over a part of the Allies' American debts, to the extent of her capacity.

(9) Determination of values of reparation deliveries by a commission of experts.

(10) Assignment of public properties or income as security for the loan.

(11) Cancellation of all other German reparation liabilities and release of German property abroad.⁹

⁹ Germany still retained this condition (cf. p. 1424). Apparently the dropping of the Upper Silesia condition may have been due to the result of the Silesian plebiscite, which was, on its surface, favorable to Germany. Eventually, the Allies being divided, the League of Nations partitioned the district between Germany and Poland, according to the nationality of the voters.

(12) Abolition of the system of sanctions, freeing of German commerce, and relief from "all unproductive expenditure."

Although this was by far the most favorable proposition Germany had yet made, the United States Government declined to transmit it to the Allies, who, in informal communications, had found in it "no acceptable basis of discussion."

It seemed, then, that an impasse had been reached. But the situation was saved by the Reparation Commission, which, in accordance with the terms of the treaty,¹⁰ announced its decision on April 27. The allied premiers, therefore, assembled in London on April 29, together with the commission. The result of the deliberations was the second ultimatum presented to Germany on May 5, and accepted by them on May 11. The text of the protocol containing the decisions arrived at, which accompanied the ultimatum, is given in full in the FEDERAL RESERVE BULLETIN, June, 1921. The terms of this ultimatum may be summarized as follows:

(1) Apart from her restitution obligations,¹¹ Germany was to pay 132,000,000,000 gold marks, less amounts already paid and amounts in consideration of ceded State properties and sums credited to Germany received from other ex-enemy powers, plus the amount of Belgium's debts to the Allies.

(2) In substitution for bonds delivered or deliverable,¹² Germany was to deliver by July 1, 1921, 12,000,000,000 of "Series A" bearer bonds; by November 1, 1921, 38,000,000,000 of "Series B" bearer bonds; by November 1, 1921, 82,000,000,000 of "Series C" bearer bonds, without attached coupons, which were to be supplied as the commission saw fit, in the light of Germany's capacity, to issue the "C" bonds.

From the date of issue in each case Germany was to pay annually 6 per cent on the amount issued, out of which there should be paid 5 per cent interest on the bonds outstanding, the balance to go to a sinking fund for redemption by annual drawings.

(3) The series were to be a first, second, and third charge on the assets and revenues of the German Empire and States,¹³ particularly on (a) sea and land customs and duties; (b) a 25 per cent levy on all German exports, the equivalent in marks to be repaid by the German Government to the exporter.

¹⁰ Article 233. (See November BULLETIN, p. 1921, column 1.)

¹¹ Part VIII, Section II, and article 238 of the treaty.

¹² Under the treaty, Part VIII, Annex II, sec. 12 (c). (See November BULLETIN, p. 1293.)

¹³ Article 248 of the treaty.

(4) Germany was to pay 2,000,000,000 gold marks annually plus an amount equal to 26 per cent of her exports. Payment of the fixed annuity was to be made quarterly, on or before January 15, April 15, July 15, and October 15, and of the variable annuity, on or before February 15, May 15, August 15, and November 15.

(5) Germany was to pay within 25 days, as the first two installments of the fixed annuity, 1,000,000,000 gold marks.

(6) A committee on guarantees, consisting of delegates from the powers represented on the Reparation Commission, was to be appointed, with power to coopt not more than three representatives of other powers, when the commission should decide that they held sufficient of the bonds to be issued.

(7) This committee was to supervise the application to the debt service of the customs and duties, the 25 per cent export levy, and such taxes as the German Government, with the permission of the commission, should earmark as substitutes for or additions to the foregoing. The committee was, moreover, to undertake the periodic examination of Germany's capacity to pay;¹⁴ but "was not authorized to interfere in the German administration."

(8) Germany was to supply materials and labor for restoration as demanded, such goods and services to be valued jointly by one valuer each appointed by Germany and the country concerned, with final appeal to a referee appointed by the commission. But the valuation of the shipping,¹⁵ reconstruction materials,¹⁶ coal,¹⁷ and dyes¹⁸ was unaffected by this arrangement.

(9) Germany was to facilitate the operation of the British reparation (recovery) act¹⁹ and any similar acts of the other Allies, and was to pay the equivalent of the levy in German currency to the exporter.

(10) The Allies were to pay to the commission, in cash or current coupons, for all goods and services delivered to them within a month of their receipt.

The ultimatum reiterated the charge of Germany's default in the matters of disarmament, reparation payments, trial of war criminals, etc. Germany was therefore required to declare her resolve to "carry out without reserve or condition the obligations defined by the Reparation Commission," and to accept similarly the prescribed guarantees. Failure to do so would be met by occupation of the Ruhr

Valley. As previously stated, Germany submitted unconditionally to these demands on May 11, 1921.

In view of the decision as to the total amount due from Germany, it is of interest to quote from the report published by the Reparation Commission on February 23, 1921, some of the claims tendered to it by the leading allied powers for examination and adjudication. In order to bring these to a common denominator, they have been converted into dollars at a rate which is the average of the means of high and low rates recorded during the months of December, 1920, and January and February, 1921.

	Amount.	Approximate dollar equivalent.
		<i>Millions.</i>
France:		
Damage to property (including interest).....	140,707,603,044 francs.....	14,402
Injuries to persons.....	77,833,993,076 francs.....	
Great Britain:		
Property damages, pensions, etc.....	£2,542,070,375.....	9,380
Separation allowances.....	7,597,832,086 francs.....	501
Italy:		
Property damage, etc., excluding shipping.....	33,036,836,000 lire.....	1,188
Pensions and allowances.....	37,926,130,395 francs.....	2,499
Shipping losses.....	£128,000,000.....	472
Belgium:		
Property damage, etc.....	34,251,615,893 Belgian francs.....	2,367
Pensions and allowances.....	2,375,215,993 French francs.....	157
Rumania: Property losses, pensions and prisoners.....	31,099,400,188 gold francs ¹	6,002
Poland.....	21,913,269,740 gold francs ¹	4,233
Yugo-Slavia:		
Property damages.....	8,496,091,000 dinars.....	246
Personal injuries.....	19,219,700,112 francs.....	1,267
Greece.....	4,992,788,739 gold francs ¹	964
Czechoslovakia (including losses through Bolshevik invasion).....	7,612,432,103 francs.....	502
Japan: Shipping losses and separation allowances.....	7,063,117,135 kroner.....	39
	832,774,000 yen.....	405
Total.....		44,793

¹ Converted into dollars at par.

The total claims, of \$44,793,000,000, amount, approximately at par, to 188,000,000,000 gold marks.²⁰ Had the Reparation Commission accepted these estimates, the payments, omitting minor claims not included in the above table, would have been divided as follows:

	Per cent.		Per cent.
France.....	32	Poland.....	10
Great Britain.....	22	Yugo-Slavia.....	3
Italy.....	9	Greece.....	2
Belgium.....	6	Czechoslovakia.....	1
Rumania.....	13	Japan.....	1

²⁰ The Keynes estimate is as follows, conversion being directly into gold marks. The rate at which francs are converted is that used by the commission (2.20), thus causing a wide divergence between the French claims as calculated above and below:

	Billions of gold marks.		Billions of gold marks.
France.....	99	Yugo-Slavia.....	9½
British Empire.....	54	Roumania.....	14
Italy.....	27	Greece.....	2
Belgium.....	16½		
Japan.....	1½	Total.....	223½

¹⁴ Treaty, Part VIII, Annex II, sec. 12 (b).

¹⁵ Treaty, Part VIII, Annex III.

¹⁶ Treaty, Part VIII, Annex IV.

¹⁷ Treaty, Part VIII, Annex V.

¹⁸ Treaty, Part VIII, Annex VI.

¹⁹ See p. 1425.

As against this division, the actual proportions, as agreed at Spa and as applying to the whole of the German and one-half of the Austrian and Bulgarian payments, were:

	Per cent.		Per cent.
France.....	52	Belgium.....	8
Great Britain.....	22	Greece, Rumania, etc..	6½
Italy.....	10	Japan, Portugal, each..	4

In arriving at the final figure for reparation it is useful to recall some of the proposals as to the payments to be demanded of Germany. The figures are arranged chronologically:

[Amounts in billions of gold marks.]

	Present value.	Total payments.
The Hughes claim ¹ at the Peace Conference, say	800-1,000	
The American suggestion at the Peace Conference.	100-125	
The Keynes ² estimate.....	137	
The Boulogne minimum, ³ June, 1920.		105 plus a variable.
The Brussels proposal, ⁴ December, 1920.		269.
The Doumer proposal ⁴ at Paris, January, 1921.	240	528.
The Paris agreement, ⁵ January, 1921.	53-83	226 plus 12 per cent export tax.
The German offer ⁷ at London, March, 1921.	(27)	(50).
The Allies' alternative offer ⁸ at London, March, 1921.		90 plus 30 per cent export tax.
The German proposal, ⁹ communicated to the United States April, 1921.	50	200 (maximum).
The decision of the Reparation Commission, London, May, 1921, say	137	(2 plus 26 per cent of exports) times unknown number of years.

¹ Mr. Hughes, the Australian premier, claimed the whole cost of the war. The estimate used is that of the State Department officials attached to the American delegation at the Peace Conference and does not contain an estimate of the value of property destroyed.

² "Economic Consequences of the Peace," 1920.

³ See pp. 1422, 1423.

⁴ See p. 1423.

⁵ See p. 1423.

⁶ Exclusive of export tax.

⁷ See p. 1424. Keynes and the "Authoritative analysis," quoted in The London Times, assume the 50,000,000,000 to have been the total of proposed payments. This, however, seems unlikely to have been the case, both in view of the arithmetic process by which the figure was arrived at, of the subsequent German proposal, and of the proposal at Versailles. (See November Bulletin, p. 1295.)

⁸ See p. 1424.

⁹ See p. 1423.

It is difficult to compare the Paris and second London schemes. It is clear that even with a liberal allowance for the levy based on exports, the present value of the latter is higher than that of the former. The yearly payments under the former, however, would be in the

beginning smaller than under the latter (in point of size) but the former would gradually outstrip the latter as the fixed payments grew, probably more than the indeterminate payments. Under the circumstances any estimate of exports is so hazardous as to be practically useless, but it seems fairly safe to suppose that the London program, if ever carried out, will take even longer in fulfillment than would the Paris program, even though that was scheduled to last considerably longer than Mr. Lloyd George's one generation.

The difference between the London and Paris programs is by some explained as a difference in function between the two presiding bodies, the supreme council and the Reparation Commission, the latter being concerned mainly with what Germany ought to pay, the former with what she can. Other authorities, however, regard this distinction as largely illusory, citing the fact that the Reparation Commission, under the terms of the treaty, is required to give Germany "a just opportunity to be heard," and to hear arguments by Germany as to her capacity to pay.

The final decision may be characterized as resulting from two lines of development: The element of a variable annuity, based on some index of industrial prosperity, was suggested at Boulogne, abandoned in the Brussels proposal, reincorporated in the Paris decision, and finally given a larger place on the London schedule, Germany's export trade being accepted as the criterion of industrial prosperity. The other line of development was in connection with the predetermined annuities. Apart from the variable items, at Boulogne the simple scheme of equal fixed annuities was adopted. At Brussels the principal of progressive annuities was incorporated; it was further adhered to in the Paris agreement, and finally abandoned in the London schedule, where the regular predetermined annuity was fixed at 2,000,000,000 of gold marks. In the final scheme, therefore, the total payments were made to rely for their elasticity on the variable annuity alone, no provision being made for the lessening of the burden of the payments on the earlier years of fulfillment.

THE FIRST THREE YEARS OF GERMAN REPARATION.

PART III.—MODIFICATIONS OF THE TREATY.

THE SPA AGREEMENT.

This article will be concerned in the main with the negotiations subsequent to the second Conference of London, which concluded with the acceptance of the Reparation Commission's decision by Germany on May 11, 1921; for, with the qualification noted in the preceding articles, no true modifications of the treaty of Versailles could take place until the Reparation Commission had announced its decision. Prior to this date, however, one important concession had been made to Germany in the matter of coal deliveries. This was at the Spa Conference, in July, 1920.

It will be recalled that, under the treaty, Germany's liability in coal was, for 1920-21: To France, say, 25,000,000 tons; to Belgium, 8,000,000 tons; to Italy, 6,000,000 tons. Despite periodic reductions by the Reparation Commission of the deliveries required from Germany, the actual deliveries had invariably fallen short of the demands. In fact, at the time of the conference, Germany was delivering at only one-half of the required rate. Yet, at the same time, it appeared that without the consent of the commission, contracts were being made with dealers in Switzerland and Holland involving the delivery of 35,000 and 80,000 tons per month, respectively. The German delegates at first professed their inability to deliver more than 1,100,000 tons per month, while the Allies offered as a temporary concession the delivery of 2,000,000 tons per month for the next six months. Later Germany proposed to deliver 1,400,000 tons per month from October 1, 1920, and 1,700,000 from October 1, 1921, on condition that the food situation had improved by that time. The food problem was always to the fore in this connection, for it was clearly perceived that German production could never increase to the necessary dimensions without an increase in the food supplies for the miners. It was reported by the London Times on July 16 that Mr. Lloyd George and Herr Stinnes had made a bargain that, if the Germans on their side would raise their offer to 2,000,000 tons, the Allies would increase the price at which the deliveries were estimated. Accordingly the Germans made a proposal to deliver 2,000,000 tons on several conditions. First, that the Allies would pay to Germany,

in cash, the difference between the German pithead price¹ and the world market price of coal; second, that the Allies' intention of establishing a commission to supervise coal movements be abandoned; third, that a mixed Allied and German commission be set up at Essen to study the condition of the mines; fourth, that the Allies provide a fund for feeding German miners and improving the housing conditions.

Ultimately terms for the next six months² were imposed, the main features of which were as follows:

(1) Germany to deliver 2,000,000 tons per month.

(2) A premium of 5 gold marks per ton to be paid by the party receiving the coal in addition to the price as fixed in the treaty, to be expended in providing foodstuffs for German miners.

(3) A joint commission to be set up at Essen to seek means of improving the conditions of the miners, with a view to greater efficiency.

(4) The Allies to make advances to Germany to the extent of the difference between the price mentioned in (2) above and the German or British export price f. o. b. port (whichever be lower), such advances to enjoy an absolute priority over all other claims of the Allies against Germany. These advances were to be in the form of credit, not of cash.

(5) If the first three months' deliveries fell short, the Allies would proceed to occupy the Ruhr Valley or some other hitherto unoccupied area.

(6) A permanent delegation of the Reparation Commission was set up in Berlin, to pass upon the production and distribution plans submitted by the German authorities in providing for the deliveries to the Allies.

In January, 1921, the Spa agreement lapsed, and with it the credits allowed to Germany, the payments of 5 gold marks per ton, and the reduced demands for deliveries. Hence there was an automatic reversion to the terms of the treaty which have not since been revised in any permanently important respect. The fixing of the demands since that time seems to have been based partly upon German capacity to deliver and partly upon world market conditions, and the arrangements made were in all cases merely temporary. A return to the pre-

¹ The German price was artificially kept down by Government regulation. On the authority of Mr. Keynes, the difference between the German pithead price and the British export price was about 70 shillings per ton (100 shillings less 30 shillings) at this time.

² The period of the agreement is important, for at its conclusion the terms thereof lapsed, and the treaty conditions came into force again.

war avenues of trade was marked by a Franco-German agreement, in August, 1921, that France would deliver 3,500,000 tons of Saar coal annually to Germany. The Wiesbaden³ agreement provided that, if France did not require all the coal she was entitled to under the treaty, Germany might export the unrequired amount and pay France on the German delivery basis. Then in January, 1922, the coal demands were fixed at 5,750,000 tons per quarter, which is somewhat lower than the Spa demand and very materially below the treaty demands. There were in addition various price adjustments made, such as that of August, 1921, when the finance ministers decided that France should be charged for sea-borne coal deliveries up to August 31 at the German internal price, instead of the British export price, a distinct concession to France in view of the low price of German coal, kept down by governmental regulation.

THE WIESBADEN AGREEMENT.

The events which, after the Reparation Commission's decision, gave rise to the most lively discussion during 1921 were the conversations between M. Loucheur and Herr Rathenau, at that time the French and German ministers of reconstruction, and the agreement concluded at Wiesbaden which was the outcome thereof. The agreement signed on October 6 is very complicated in its documentation, but may be understood merely as a convention simplifying reparation payments by providing for the direct supply of restoration materials to France. It will be recalled that the treaty provided⁴ for the liquidation of a part of Germany's obligations by deliveries of such materials, for which it was later agreed, the recipient country was to pay over to the commission the fair value thereof in currency or bond coupons within a month of their receipt. The Wiesbaden agreement, in effect, replaced the pertinent parts of the treaty, so far as they related to France, by an arrangement for larger deliveries with partially deferred credit given therefor in Germany's reparation account. Up to May 1, 1926, Germany was to deliver a maximum of goods, including deliveries under unimpaired annexes of the treaty,⁵ valued at 7 billions of gold marks. The deliveries were to be facilitated by a German and a French company, under Government control, but financed in part by private capital.

The former would assemble the material ordered by private individuals through the latter, and undertake its transmission to suitable terminals, whence the French company would deliver it to the individuals whose orders it was executing. The French company would dispose of the material solely for rebuilding the devastated regions, and would fix the prices at such a figure as would not compete unreasonably with the French private interests, which had been strongly opposed to the agreement. Germany's interests were protected by the provision that the deliveries were to be "compatible with the possibilities of production in Germany, and subject to the limitations as to supplies of raw materials" and "in accord with the requirements necessary for Germany to maintain her social and economic life." The prices with which Germany was to be credited were to be fixed by mutual consent, or, failing agreement, by a commission of three, comprising one German and one French nominee, with a mutually acceptable third member, or, failing that, a nominee of the Swiss President. A price list was to be fixed every three months, the prices to correspond with French internal prices, less customs and transportation charges. In addition, provision was made for the execution of orders given by individuals, not through the company, but to a private German producer.

The deferred-payment scheme contained a blanket provision that in no case should Germany be credited with more than 1 billion gold marks in any one year. Secondly, Germany would only be given immediate credit for a maximum of 45 per cent of the values of the year's deliveries if these were less than 1 billion gold marks, or 35 per cent if they were more. The former limitation applied to treaty and agreement provisions together, the latter to agreement provisions only. So that in effect they meant that a minimum of 55 or 65 per cent, as the case might be, would be carried forward, to be credited by installments. This balance was to carry interest at 5 per cent per annum, and would be wiped out in 10 equal yearly installments, from May 1, 1926—that is, from the end of the opening period of the agreement. But it was expressly provided that in no case should France be debited in any one year with a total of agreement and treaty deliveries in excess of her agreed proportion of reparation payments (52 per cent). Provision was made for the renewal of the agreement beyond the four and a half years of its present life.

³ See below.

⁴ Annex IV; see November, 1922, BULLETIN, p. 1293.

⁵ Annexes III, V, VI; see November, 1922, BULLETIN, p. 1294.

In addition to the general part of the agreement, there were added four supplementary agreements. One of these, dealing with coal, has already been outlined above. Another provided for the closing of the animals account by the delivery of 62,000 horses, 25,000 cows, 25,000 sheep, 20,000 hives of bees;⁶ another for the liquidation of Germany's liabilities in respect of restitution of industrial materials by delivery of 120,000 tons of machinery as ordered, with a payment of 158,000,000 of marks in gold;⁷ and the fourth for the delivery of 6,000 railroad cars to satisfy France's rolling stock claims.⁸

This agreement could not, of course, be put into effect until the consent of the other Allies had been obtained. Hence it was forwarded to the Reparation Commission for its consideration. The commission, in its decision of October 20, entirely approved the principles underlying the agreement, but saw in it certain departures from the terms of the treaty, in that it violated in particular the provision for division of the reparation receipts among the Allies as agreed "on a basis of general equity and the rights of each," and that giving the commission power to fix the value of goods delivered by Germany.⁸ Having no power to authorize these departures then, the commission referred the memorandum to the Governments represented on it, with a recommendation that it should receive a favorable examination.

On October 26 the British member of the commission, Sir John Bradbury, submitted to his Government a report on the proposed agreement, in which he showed that Germany was by the agreement taking upon herself heavier burdens than had been laid on her by the London decision. In view of the fact, then, that that decision, made so recently, "represented, in the opinion of the * * * commission * * * the maximum burden * * * Germany could be expected to be able to bear," the agreement was liable to prejudice the fulfillment of Germany's other obligations. In case of default on these latter, it was then probable that Germany would plead her agreement obligations in extenuation. This would involve, in fact, an alteration in the division of receipts, especially favorable to France. According to Sir John Bradbury's report, the Allies would, in effect, be advancing sums to France at 5 per cent, on the security,

not of the French Government, but of the French share of future reparation receipts.

Sir John Bradbury, then, supported by the Belgian and Italian delegates on the commission, recommended certain safeguards against the possible ill effects of the agreement. First, there should be a definite period, of not more than seven years after the conclusion of the deliveries, beyond which no new deferment of debit should be made. Second, that the aggregate deferred debit against France should be limited to, say, 4 billions of gold marks. Third, France should be required to pay to the general reparation account, from time to time, any amount of the deferred debits, which might be necessary to secure to the other Allies their agreed shares of the reparation receipts.

For some time no action was taken in this matter, but in March, 1921, the allied finance ministers, at their meeting at Paris, considered the agreement in detail. It is interesting to note how far the safeguards suggested by Sir John Bradbury were applied. In the first place, the agreement was approved for a period of three years, the amount remaining due at the end of 1924 and interest thereon to be canceled in 10 equal annuities, beginning May 1, 1926, by debits to France's reparation account. Further, the amounts deferred were not to exceed 350 millions of gold marks in 1922, and 750 millions in 1923 and 1924 each, so that the total deferred on May 1, 1926, could not be more than, say, 2,100 millions of gold marks. The revised draft of the agreement was finally approved by the commission in June, 1922, after provisions had been inserted for facilitating private deals, in particular the placing of orders directly with the German manufacturer. In the following month the commission notified the German Government that the agreement would come into operation on July 20.

The application of the Wiesbaden agreement was, then, the first arrangement which recognized the advisability of cutting down the demands for cash, and of making arrangements for larger deliveries of such goods as would not seriously injure the Allies' trade, and as would accelerate the restoration of the devastated areas of France to their former productive capacity.

THE CANNES CONFERENCE.

The next step in the direction of the readjustment of the Allies' demands was made at the Cannes Conference. The holding of the conference was decided upon by the French and British premiers in conversations at Boulogne

⁶ Article 238, and Annex IV; see November, 1922, BULLETIN, p. 1292, col. 1, and p. 1293.

⁷ Annex IV; see November, 1922, BULLETIN, p. 1293.

⁸ Annex II; see November, 1922, BULLETIN, p. 1291, col. 2.

in December, 1921. No details of the policy to be pursued were published, but M. Briand announced that "the two countries were determined to act together." "We have already laid down broad lines," he said, "and will only have to complete the details at Cannes." Just prior to this, however, the French Foreign Office had issued a statement embodying the principles which should govern the conversations. The first expressed France's willingness to abandon the London schedule of payments in favor of a new one, which would not, however, reduce Germany's payments; the next to reduce the armies of occupation (which were now seen to absorb the larger part of the receipts) provided Great Britain were to give absolute guarantees of support in the event of future German aggression. The third stated that France would assist in the improvement of the economic situation (by reducing tariffs, for example), recognizing that Great Britain was as concerned over trade prospects as was France over reparation. Again recognizing this fact, France was ready to undertake joint measures with Great Britain looking to the economic and industrial restoration of Germany. Lastly, and perhaps most important, France, while unwilling to reduce the reparation claims, was prepared to grant Germany every possible facility for making deliveries in satisfaction thereof.

Upon this basis, it may be assumed, then, the Supreme Council met at Cannes on January 8, 1922, one of its objects being to arrange a schedule of payments for 1922. It was here that it was decided to call a conference at Genoa, to which Germany and Russia were to be invited to send delegates, and it was this decision which brought about the resignation of M. Briand, rendering the conference to some extent abortive. On January 11 the French Senate committee for foreign affairs telegraphed to M. Briand what seemed to them to be the four essentials of any agreement on reparation which might be made with Great Britain. Such agreement must recognize that the economic and financial reconstruction of France was essential to European recovery; that there must be no reduction of the reparation demands of May, 1921, and no modification of Belgian priority; it must give definite assurance that French rights would be respected at Genoa, and must guarantee French security. Despite M. Briand's consequent resignation, however, and the Supreme Council's failure to take definite action on adjourn-

ment as to reparation, the meeting was not wholly unfruitful in this matter. The immediate fact was that the Reparation Commission granted Germany a provisional delay on the payments due on January 15 and February 15, one of the conditions being the payment every 10 days of 31,000,000 of gold marks.¹⁰ But beyond this, general agreement had been reached on the proposed program of 720,000,000 in cash and 1,750,000,000 in kind for the year 1922. Of the cash Great Britain was to receive 159,000,000, of which she would lend 139,000,000 to France. The remainder would go toward the liquidation of Belgium's prior claims.

M. Poincaré, who succeeded M. Briand, would agree to participate in the Genoa Conference only on condition that there should be no discussion there of reparation. Early in February he telegraphed to Mr. Lloyd George that France felt unable to send delegates if any of the invited Governments let it be understood that they did not entirely accept the conditions arranged at Cannes, precluding the discussion of existing peace treaties. Hence the matter of reparation was now back in the hands of the commission. Mr. Lloyd George did, as a matter of fact, call a meeting at Genoa of the signatories of the Versailles treaty to consider what steps should be taken should Germany default on May 31, but the invitation being flatly rejected by the French, even this project did not succeed in getting so much as private discussion of reparation at Genoa.⁹

On February 28, 1922, a provisional accord was reached with Germany whereby payment would be made of 720 millions in cash and 1,450 millions in kind. This represented a reduction of perhaps one-third from the London program. On March 21 the commission issued its decision embodying details of this schedule. Germany having already paid 282,000,000 in 10-day cash installments, there remained 438,000,000 to be paid during the rest of the year. On April 15, 18,000,000 was to be paid, 50,000,000 monthly from May 15 to October 15, inclusive, and 60,000,000 each on November 15 and December 15. Of the goods payments, 950,000,000 were to go to France and 500,000,000 to the other Allies, as far as orders might be placed. Merchandise delivered to the armies of occupation was to be credited to their expenses account, and not to reparation. Attached to this partial moratorium were numerous conditions,¹¹

⁹ An account of the Genoa Conference was given in the FEDERAL RESERVE BULLETIN for May, 1922, p. 549.

¹⁰ This arrangement will be dealt with more fully in the following article of the series on "Fulfillment of the Treaty."

¹¹ See final article of the series on "Fulfillment of the Treaty."

which gave rise to long correspondence between Germany and the Allies. But the decision was finally approved on May 31.

Even this program, however, did not last long. On July 11 it was decided to reduce the installment due on the 15th of that month to 32,000,000, the balance of 18,000,000 being credited on account of recent deliveries of dye-stuffs under the terms of the treaty. This fact is significant in view of the rigidity of the cash demands formulated in the partial moratorium decision.

MORATORIUM NEGOTIATIONS AND THE THIRD LONDON CONFERENCE.

On July 12, 1922, Germany laid before the commission a formal request for a moratorium of two and one-half years and a resumption of the loan negotiations which had recently broken down. For some days past Herren Fischer and Schröder had been conferring with the commission on this matter, the outcome being the reduction of the July installment and the application for a moratorium. The commission, however, deferred consideration of the larger question until the report of the guarantees committee, appointed under the commission's May 1, 1921, protocol,¹² should have been presented and examined.

Having thus expressed its inability to make further cash reparation payments, the German Government went further by asking, on July 19, that the monthly payments in respect of pre-war debts, by the clearing-house mechanism, be reduced from £2,000,000¹³ to £500,000 up to December 31, 1922. Added to this was a request that payments for damages to property rights and interests in Germany of nationals of the Allies be suspended. This request was refused by the allied compensation office on July 25.

On the following day the guarantees committee announced that Germany had agreed to certain measures of financial control¹⁴ over receipts and expenses, the floating debt, and the export of capital. The significant fact regarding this agreement is that in his formal acceptance Chancellor Wirth consented to the control for the period of the expected moratorium, to be determined at the pending London Conference.

The failure to reduce the compensation demands, and the reduction, on July 21, of the

coal deliveries for August, September, and October to 1,725,000 tons per month, gave mixed indications for the coming conference. But a far more important fact was the issuance on August 1 of the Balfour note,¹⁵ which was immediately taken as a full exposé of Britain's attitude on the reparation problem. This document was the first official recognition of the inseparability of interallied debts and reparation.

The note was addressed to the French Government, but identical notes, varying only in name of the addressee, were sent to Italy, Yugoslavia, Rumania, Portugal, and Greece. A copy was presented to the American embassy for transmission to Washington.

The British Government began by expressing its recognition of its obligations with respect to its debt to the United States, but announced that while doing so it was forced to modify the course which, in other circumstances, it might have wished to pursue. "They can not treat the repayment of the Anglo-American loan," said the note, "as if it were an isolated incident in which only the United States and Great Britain had any concern." The principles were enunciated that "their (the Allies') debts were incurred, their loans were made, not for the separate advantage of particular States, but for the great purpose common to them all," and that the United States' loans to Great Britain were largely in effect loans to the Allies on Great Britain's security.

Accordingly, Great Britain did not intend to ask more from her debtors than was necessary to pay her creditors. At the same time, she could hardly be content with less. She could not be expected to forego all, and at the same time pay all, since her people were suffering from an unparalleled burden of taxation, want of employment, and diminution in the national wealth. The amount demanded of France was therefore to depend more on the demands to be made on Great Britain by the United States than on the French debts to the United Kingdom.

The policy favored by the Government was to surrender Britain's share of reparation and cancel all interallied debts, but there was no desire to profit by a less satisfactory settlement. Of the alternatives, it was believed a general settlement would be of much greater value than the "most successful enforcement of legal obligations."

Following a great deal of unofficial discussion and criticism and supplementary statements by

¹² See December, 1922, BULLETIN, p. 1425.

¹³ This sum was agreed upon with all the Allies on June 10, 1921.

¹⁴ This will be more fully discussed in the final article of the series on "Fulfillment of the Treaty."

¹⁵ The full text of Lord Balfour's note was reprinted in the September, 1922, issue of the BULLETIN.

members of the British Cabinet of Great Britain's determined intention to pay her debt to the United States, the allied premiers assembled at London on August 7. At the outset Premier Poincaré announced France's refusal to agree to a moratorium without further guarantees from Germany. The specific proposals, which included the establishment of a customs barrier on the eastern boundary of the occupied area, the seizure of State-owned forests and mines on the left of the Rhine, and the payment of the 26 per cent export levy direct to the Reparation Commission instead of to the allied treasuries, were referred to a committee of experts, which, after careful examination, rejected them as unproductive, by a 4 to 1 majority. The proposal that Germany should hand over a share in industrial enterprises was also unfavorably reported.

The British proposals included a moratorium on cash payments until the end of 1922, measures to prevent the export of capital, to establish the autonomy of the Reichsbank, to consolidate the floating debt, and to exercise control over German finances. A more permanent proposal was to reduce the total cash reparation demands to not more than 26 per cent of exports in future years, while leaving further scope for payments in kind.

At this juncture of deadlock Signor Schanzer, obviously influenced by the Balfour note, proposed the placing of the question of an immediate moratorium in the hands of the Reparation Commission, a permanent settlement not to be made until the various countries had completed their debt funding negotiations with the United States.

This compromise failed to produce agreement, however, and the conference adjourned, on August 14, without any definite steps toward settlement having been taken.

The August 15 payment having been postponed, pending a decision at London, it was not until August 31 that the Reparation Commission decided to relieve Germany from further cash payments in 1922. The British delegate's proposal to grant this relief without guarantees was rejected. Germany was to furnish suitable guarantees for the payment of 6 months' treasury bills, which were to be delivered to the Belgian Government, to whom the immediate payments were due, in lieu of cash payments. Such guarantees were to be agreed upon between the German and Belgian Governments, and, failing agreement, gold was to be deposited as a guarantee. The decision on Germany's application for a 2½ years' mora-

torium was to be deferred until financial reforms, involving budget equilibrium and currency rehabilitation, were carried out.

Germany at first failed to give the Belgian Government satisfactory guarantees. The deposit of 100,000,000 gold marks was accordingly demanded and refused. A declaration of voluntary default was threatened by the Reparation Commission, but finally, on September 18, the Reichsbank announced its willingness to guarantee the treasury bills. This offer, which was put forward after private business negotiations between the Reichsbank and the Bank of England, was accepted by Belgium the following day. The French delegate on the Reparation Commission, however, refused to join in ratifying the arrangement, it being held that the guarantees were insufficient, and that the burden transferred by the 6 months' bills to 1923 would mean a burden on Germany which might be used as an excuse for asking relief from 1923 payments.

THE INTERNAL SITUATION IN GERMANY.

For some time past the financial position in Germany had been cause for anxiety to the Allies. It was now critical. The reparation committee, doubtless influenced by the failure of the experts to arrange a loan, in June,¹⁶ and the report of the guarantees committee, took account, in the decision just outlined, of the fact that "the German State has lost its credit and the mark has depreciated continuously." This question of currency depreciation, with all its ramifications, now became uppermost.

With the problem of stabilization in mind, Sir John Bradbury, the British representative on the Reparation Commission, put forward a proposal, made public on October 14, under which, for a period of two years, or possibly longer, Germany was to furnish 5-year treasury bonds in place of cash payments. The commission was to be reorganized, with the inclusion of a United States representative, and removed to Berlin, in order to be in closer touch with the German Government. The relief granted to Germany would enable the Allies to fix an exchange value for the mark, by means of an arrangement under which the Reichsbank would sell gold for paper marks at a rate to be determined by a mixed commission. It was recognized, of course, that such a scheme would be impracticable unless the Reichsbank were relieved from making new discounts for Government expenditures.

¹⁶ See final article on "Fulfillment of the treaty."

This scheme the French delegate was instructed by his Cabinet to oppose. The French plan called for complete and rigid control of finances and the power to veto expenditure and regulate taxation. The Reparation Commission's powers were to be limited to the application of guarantees and reforms in Germany. The Reichsbank would be under interallied control and forbidden to discount further treasury bills, while the treasury would not have power to raise loans without the consent of the guarantees committee. The calling of an international meeting was urged, to formulate a comprehensive settlement of interallied debts and reparation and to fix the payments for 1923 and 1924.

With these plans held over, Germany was granted some relief by a decision of the allied clearing offices freeing her from further payments under this procedure (for the settlement of pre-war debts) until July, 1923.

So critical had the position now become that at the end of October the Reparation Commission itself went to Berlin to investigate financial conditions for itself and to consult the German Government on measures of stabilization of the mark and its incidents. The commission's investigations continued well into November.

At the same time a committee of private experts, called together by the German Government, was also examining the situation. On November 8 the majority report¹⁷ of the committee, signed by R. H. Brand, G. Cassel, J. W. Jenks, and J. M. Keynes, was presented. Upon the hypothesis that stabilization of the mark was equally as essential to Germany's creditors as to Germany itself, it expressed the view that, granted certain concessions by the creditors, stabilization was possible. But such an end "must primarily depend upon Germany's own efforts and own resources and on resolute action by her own Government." Two obstacles were in the way therefore—the budgets of the Versailles treaty and the financial methods of the German Government during and after the war. Regarding the former, a moratorium until such time as payments could be made "from a real surplus and not from the proceeds of fresh inflation" was a *sine qua non*. The requisite period would be at least two years and the moratorium must cover kind deliveries as well as cash payments. Furthermore, while stabilization must be begun immediately, in view of the risks of inaction, any scheme could only be provisional

until "final settlement on the reparation question at an early date on lines capable of being carried out." To overcome the second obstacle, the report advocated the setting up of an independent board of exchange control within the Reichsbank, with an adequate gold supply from the Reichsbank's reserves. So long as any of this gold was unpledged, the board was to purchase paper marks at a fixed rate. A definite maximum was to be fixed for the floating debt, and Government requirements, which would otherwise be met by increasing the floating debt, were to be supplied by funded loans. No modification of these rules was to be made without the consent of the Reparation Commission.

The minority report,¹⁸ signed by L. Dubois, B. Kamenka, and G. Vissering, likewise recommended the suspension of cash payments until stability was reached. To attain the end, however, it suggested the creation of a new standard of value in the shape of a gold mark, to be issued by a "specie bank," founded upon the Reichsbank's gold reserves. It further advocated the extension to Germany of an international bank credit of 500,000,000 gold marks.

A memorandum, signed by the banker members of the committee, R. H. Brand, L. Dubois, and G. Vissering, recommended the formation of an international banking syndicate with a capital of 500 millions of gold marks in the form of credit acceptances guaranteed by the Reichsbank, 500,000,000 further Reichsbank participation in supporting action. Germany would require a moratorium until repayment of the syndicate's advances.

The outcome of these independent inquiries was that on November 13 Germany made a proposal to the Reparation Commission based upon the Brand-Dubois-Vissering plan, a copy of which was appended to the communication. It expressed the willingness of the Reichsbank to advance 500,000,000 gold marks to the Government toward a stabilization loan, provided an equal amount were forthcoming from abroad, and subject to the conditions laid down by the experts. As necessary concessions to Germany there was to be a moratorium covering cash payments for three or four years. The moratorium would also cover deliveries in kind, except such as were required for the rehabilitation of the devastated areas. Even these, however, were to be continued only so long as they involved no increase in the floating debt.

There were now before the powers, then, various schemes for the amelioration of the critical

¹⁷ The full text is reprinted on p. 45 of this issue.

¹⁸ The full text is reprinted on p. 47 of this issue.

situation in Germany and the generally unhealthy economic conditions throughout Europe. Whether of British, French, German, or joint origin, all these plans had this common end in view. Suggestions had become prolific when the time came for fixing the schedule of payments for 1923, but little material improvement had been gained from the measures already employed. Such was the result of more than three years of consideration of the problem of making good the material losses of the war.

THE UNITED STATES AND REPARATION.

No treatment of the general topic of reparation would be complete without a statement of the steps taken by the United States Government in dealing with the matter of its own claims against Germany and of its connection with the European negotiations.

On March 2, 1921, the Secretary of State placed before Congress a provisional total of the American war losses. The aggregate claims, consisting in large part of losses through submarine warfare, were estimated at \$180,000,000. At the same time, an estimate of American interests in Germany, consisting of securities, bank deposits, real estate, debts, etc., placed the total at \$191,000,000. The Versailles treaty being rejected, the United States of course sent in no claims to the Reparation Commission, as did the other Allies. Unofficial observers represented the United States on the various commissions until February, 1921, when Mr. W. H. Boyden was withdrawn from the Reparation Commission, where he had held a seat as unofficial representative of the United States.

At this point the United States enters on a new period with regard to the question of European reparation, her support being sought both by Germany and the Allies. In February, 1921, the French Government sent a note to M. Jusserand, its Ambassador in Washington, instructing him to "present the allied indemnity proposals in a more favorable light," with a view to obtaining American help in the matter of reparation. Then in March a long informal memorandum was sent to the United States Government by Doctor Simons, asserting Germany's urgent desire to reach an accord with the Allies, recognizing Germany's liability to make reparation, and refuting the charge of reluctance in so doing. The note pointed out that Germany's offers of labor and material had been ignored,¹⁹ but expressed her intention of making a new proposal to France along those lines.

It asserted that an international loan was the only solution to the problem of reparation payments, and announced Germany's willingness to assume part of the debts of the Allies. To this memorandum, while ignoring the questions of loans and assumption of debts, the Secretary of State replied (March 29) that "this Government stands with the Allies in holding Germany responsible for the war, and therefore morally bound to make reparation so far as may be possible." The next step was taken on April 24, when, after the first ultimatum of London, Germany made the proposition, outlined in the preceding article of this series,²⁰ submitting it to the United States for consideration looking to its transmission to the Allies. This transmission the United States, as related, refused to undertake, finding in the proposal "no acceptable basis of discussion."

Following these negotiations, early in May, 1921, an invitation was sent by the Allies to the United States Government to appoint representatives on the Supreme Council, the Reparation Commission, and the Council of Ambassadors. The invitation was at once accepted, Mr. Harvey, the Ambassador in London, being appointed United States representative on the Supreme Council, Mr. Herrick, Ambassador in Paris, on the Council of Ambassadors, and Mr. W. H. Boyden reappointed as representative in an unofficial capacity, on the Reparation Commission.

The United States did not, however, set up any machinery for the purpose of securing reparation. The treaty of Berlin, signed in August, 1921, has been outlined in the addendum to Article I. It will be recalled that the United States retained the "rights, privileges, indemnities, reparations or advantages to which it * * * has become entitled under the terms of the armistice signed November 11, 1918, * * * or which under the treaty of Versailles have been stipulated for its * * * benefit." Article II names the specific parts of the treaty under which the United States reserves its rights. These include Part VIII, in which are enumerated the damages for which Germany is to pay, among them being pensions and allowances. The status of the United States on the Reparation Commission is dealt with in section (4), which reads: "While the United States is privileged to participate in the Reparation Commission, * * * the United States is not bound to participate in any such commission unless it shall elect to do so."

¹⁹ First conference of London. See December, 1922, BULLETIN, p. 1424.

²⁰ See December, 1922, BULLETIN, p. 1425.

In March, 1922, almost immediately after the invitation to attend the Genoa Conference had been declined by the Secretary of State, a demand was sent to the meeting of Allied Finance Ministers for reimbursement for expenses incurred in connection with the army of occupation. The total expenditure of the United States Government up to April 30, 1921, had been \$275,324,192, of which the balance due from Germany was \$240,744,512. This sum was therefore claimed from the Allies out of the amounts so far received from Germany, which (according to the treaty of Versailles) were to be allocated first to the defraying of expenses of the armies of occupation. The Finance Ministers took no action on this matter, it being considered outside the scope of their powers. In a note to the United States Government they suggested that the matter should be referred to the respective Governments through ordinary diplomatic channels, and that in the agreement between the ministers arrived at on March 11, which dealt in part with the division of the first billion marks received from Germany, a clause had been inserted to protect American interests. This clause provided that all agreements on the question of division of receipts were subject to the American rights, as the various Governments might establish them.

In accordance with the suggestion of the Finance Ministers, then, the Secretary of State addressed a note to each of the Governments of Great Britain, France, Italy, Belgium, and Japan. This note stated that the total cost of all the armies of occupation up to May 1, 1921, had been 3,639,282,000 gold marks. The amounts due to Belgium, France, and Italy having been paid in full, there remained outstanding a balance of 1,660,090,000 gold marks, of which 966,374,000 was due to the United States and 693,716,000 to the British Empire. The former was the amount now claimed, inasmuch as it was understood that between May 1 and December 31, 1921, 130,696,000 marks had been appropriated to Great Britain, such appropriations being "expressly made and received subject to the rights of the United States."

In their replies the Allies all recognized the American claim in principle and informed the Secretary of State that negotiations were proceeding among them in order to agree on a common plan. The British reply, for example, stated that "the claim put forward by the United States Government that these expenses should be reimbursed to them is one which His Majesty's Government would not in any circumstances desire to question." The French

Government made no objection to the claim, but raised the question to whom the claim should properly be made—to Germany or to the Allies.

Regarding reparation for her own damages and losses, the first step taken by the United States after the conclusion of the Berlin Treaty²¹ was in the negotiations which culminated in the agreement between the German and United States Governments, signed at Berlin on August 10, 1922. This provided for the setting up of a mixed claims commission, to pass upon and fix the amount of American claims against Germany. The commission was to consist of one representative from each party to the agreement, together with a mutually acceptable umpire, whose decision was final in the event of disagreement between the commissioners. It was to pass upon claims of American citizens in respect of all damage to or seizure of property, rights, and interests, as well as damage to persons, arising out of the war and sustained since July 31, 1914; and upon debts owing by the German Government or German nationals to United States citizens.

The agreement came into force immediately upon its being signed. Germany appointed Doctor Kiesselbach, and the United States Mr. E. B. Parker, as the respective commissioners, while, at the special request of the German Government, another American, Supreme Court Justice Day, was appointed as umpire. In accordance with the terms of the agreement, the commission met in October, and its deliberations are proceeding.

FINANCE COMPANIES.²²

Since about 1900 there has been developed in the United States a group of organizations variously known as finance companies, credit companies, or discount companies. Their business may include one or more of the following: (1) Discounting or buying commercial receivables—i. e., accounts, notes, or acceptances; (2) advancing funds to dealers with which to purchase automobiles (wholesale sale of automobiles); (3) advancing funds to enable dealers to sell automobiles on the installment plan (retail sale of automobiles); (4) advancing

²¹ See November, 1922, BULLETIN, p. 1236.

²² This article presents the result of a study made by the Division of Analysis and Research of the operations of finance companies. That part on discounting receivables is based upon data secured from 20 companies, that on wholesale financing of automobiles on 23 companies, and that on retail financing of automobiles on 60 companies. Acknowledgment is due these organizations for kindly furnishing the information, and to those leading authorities in the field who have read and made suggestions on the tentative draft of this report.

THE FIRST THREE YEARS OF GERMAN REPARATION.

PART IV.—FULFILLMENT OF THE TREATY.

In this final article of the series,¹ the first part runs parallel to the narrative of the preceding article. In the latter an account was given of the negotiations between Germany and the Allies subsequent to the announcement in May, 1921, of the schedule of payments determined by the Reparation Commission. It is now necessary to relate the measures taken in fulfillment of the agreements reached between the parties, and to outline the efforts made by Germany acting alone to comply therewith. The present article then summarizes and analyzes the total payments made up to the end of August, 1922—their composition, their nature, and their distribution between the Allies.

EARLY DELIVERIES.

It will be remembered that under the treaty of Versailles, Germany had been required to pay 20 billions of gold marks before May 1, 1921.² The main bulk of Germany's payments up to that time was in the form of coal, along with, of course, large amounts of shipping, and other payments in kind. Even in the matter of coal, however, and under the reduced demands of the Spa agreement, Germany was in default by the end of 1920. In January, 1921, the Reparation Commission called her attention to a shortage of 500,000 tons up to the end of the year. Germany confessed in reply her inability to make up the deficit within the next three months. As a matter of fact, despite the commission's subsequent demands for 2,200,000 tons monthly, Germany continued to be increasingly in default, the deficits, however, being more or less acquiesced in by the commission. For at this time there was a glut of coal in the European market, and the British coal industry was working at much below its full capacity.

Including coal deliveries up to February, 1921, the Germans claimed to have liquidated this obligation to pay 20 billions of gold marks by May 1. The prices at which they valued the goods were, however, much in excess of those allowed by the Reparation Commission, which then demanded payment of 1 billion gold marks by March 21 and 12

billions in all by May 1. Germany protested the impossibility of these demands and the low values placed on their deliveries by the commission, and demanded a mixed valuation commission. The commission, however, replied by ordering the removal of the metal reserve of the Reichsbank to its branches at Cologne and Coblenz (both of which were in the occupied area) as security for Germany's obligations. This, and later the demand to put 1 billion marks at the commission's disposal in the Bank of France before May 1, were not carried out, Germany protesting that the removal of practically all of the reserve (then about 1,092,000,000 marks) from the Reichsbank would precipitate a panic. The London decision relieved Germany from an immediate obligation which she could probably in no case have carried out the payment of the balance of 12 billions owing before May 1. But before the end of that month 1 billion was paid over.³ One hundred and fifty millions of this was paid at the middle of the month in gold and foreign currency and 840 millions in three-month treasury bills, while 10 millions was held in Berlin at the disposal of the commission. During the next three months Germany was accumulating credits in New York, both to meet the bills falling due and for imports of grains and food, by means of joint guaranties by German banks. Throughout June, July, and August these were gradually being paid off, the whole transaction being completed by a final shipment of 68 millions in gold to New York on August 31.

The accomplishment of this payment brought about an important step toward normality, the Supreme Council having agreed to lift the economic barrier of the Rhineland on September 15, provided Germany paid the amount due by September 1 and removed the boycott on French goods.

In August, 1921, the Inter-Allied Financial Commission met to discuss the appropriation of the 1 billion marks being paid. It was agreed then that it should be divided between Great Britain, for the costs of her army of occupation, and Belgium, in part consideration of her prior claim to reparation. France, in consideration of her receipts in kind, relinquished any claim to a share thereof, being debited with the value of 15 years' production of the Saar coal fields, valued provisionally at from 300 to 400 millions of gold marks. These items more than covered her occupation ex-

¹ The preceding articles appeared in the BULLETINS for November and December, 1922, and January, 1923. This series of articles does not discuss events which have occurred since October, 1922.

² See November, 1922, BULLETIN, p. 1292, col. 2.

³ In accordance with the terms of the London settlement, see December, 1922, BULLETIN, p. 1426, col. 1.

penses. Great Britain's claim was for the difference between costs to date of 1,200,000,000 and receipts of 300,000,000. She was therefore to receive 600,000,000 on account, the balance of the receipts going to Belgium. The scale of charges against Germany for occupation costs was based upon man power. That for France was 16 francs per day; for Great Britain the French scale plus 2 gold marks; and for the United States the French scale plus 3 gold marks per day per man.

The next payment was due on November 15, being the first export levy. This sum, however, amounting to 300 millions, was easily covered by payments in kind prior to that date.

PREPARATIONS FOR 1922 PAYMENTS.

About this time, however, it began to be perceived that Germany would have difficulty in meeting the payments due in January and February of 1922. There was much discussion, particularly in German financial circles,⁴ as to the possibilities of obtaining a moratorium. Accordingly, on November 5, the Reparation Commission decided to visit Berlin to study the means of paying the pending installments and of carrying out certain plans recommended by the guarantees committee. On December 2 a telegram was dispatched to Berlin urging the Government to pay full attention to the matter of preparing for the payments due on January 15 and February 15. This communication was important in that it asserted that Germany's difficulties were financial rather than economic. The Government, it charged, had failed to take timely steps to balance the budget, the result being that Government expenditures had been met in increasing proportions by credits from the Reichsbank, involving continuous expansion of the fiduciary note issue. The immediate outcome was the appointment by Chancellor Wirth of a commission concerned with direct dealing with foreign security brokers to obtain foreign credits to meet the German obligations immediately pending. These cash obligations, exclusive of deliveries in kind, were estimated at 400 millions of gold marks on January 15 and 240 millions on February 15, the latter being the export levy.

Some days later the Chancellor dispatched a lengthy memorandum on the subject to the commission. It asserted that reparation payments were dependent on the flotation of a foreign loan. It was well known that Herr Rathenau had been negotiating for some time

past with London financiers with this object in view. These negotiations, however, had broken down with the assurance that, in view of the reparation claims of future years, such a loan could not be raised in England, either as a long-dated loan or as a short-dated bank credit. Hence it was impossible to make full payment of the January and February installments. Apart from deliveries in kind and receipts under the British reparations recovery act, Germany could not procure for these payments more than 150 to 200 millions of gold marks. The commission was therefore requested to extend the time limit for payment. The note closed with a very significant passage: "The Government," it said, "confines itself to this request, although it realizes that similar difficulties will arise in connection with subsequent payments."

In its consideration of this note the commission recognized that under the circumstances there existed only three ways of making the payments. First, Germany might make use of the money held abroad by German nationals. The objection to this method was, however, that the German Government might well protest she had no power to acquire these balances. Second, payment might be made out of the gold reserve in the Reichsbank, which now, after the last payments, stood at only slightly more than 1 billion marks. It was, of course, true that as a reserve this sum was almost useless, representing as it did only 1 per cent of the note issue. Nevertheless it was felt that even this amount of gold is of great importance in any future rehabilitation of German currency. The third course was to buy foreign exchange with paper marks sold abroad, and the results of such a procedure were patent to all observers.

TAXATION AND INTERNAL REFORMS IN 1922.

While the Cannes Conference was proceeding, the commission conferred with German delegates and granted a provisional postponement⁵ of the January and February payments, on certain very definitely prescribed conditions. Germany was to pay in lieu thereof 31 millions of gold marks every 10 days, beginning January 16, these continuing until the Allies should decide on a more permanent scheme. But, furthermore, Germany was to submit within 14 days a plan of reforms and guaranties for the budget and the currency and for reparation payments. This scheme would supply the starting point for the elaboration of the Allies' plans.

⁴ The German Finance Minister himself, Dr. Dernberg, suggested in a newspaper article, on November 6, a 10-year moratorium.

⁵ See January BULLETIN, p. 32, col. 2.

On January 26 Chancellor Wirth announced in the Reichstag the Government's taxation proposals. These included a compulsory loan of 1 billion gold marks, bearing interest only after a period of three years, abandonment of the taxes on post-war profits and imposition of a 2 per cent business tax, and raising of the duties on coal and sugar and the property, capital, and corporation taxes.

The German reply to the conditions imposed by the commission asked for a general reduction in the cash payments, accompanied, if necessary, by an increase in deliveries in kind. To this end Germany was willing to conclude, with other powers, agreements along the line of that made with France at Wiesbaden. The commission was also asked to permit the expenses of occupation to be credited to the total sum in cash and kind paid in 1922. The note pointed out that the recurring periodical payments in foreign currency greatly hampered the efforts being made to put the German finances in order; and proceeded to outline the measures of reform and guaranties proposed. An internal loan was to be raised, as well as a forced loan, in order to reduce the floating debt. Further, since recovery to the extent necessary to pay reparation obligations was impossible without a restoration of the world's confidence in Germany, the Allies were asked to assist in floating an external loan for her. Strong measures, such as the abolition of the obligation to secrecy imposed on the banks, would be taken to prevent the removal of capital out of the country and the evasion of tax payments. The postal and telegraph systems were to be reformed and food subsidies were to be cut from 2½ billions of paper marks to 1 billion in 1922, thus tending further to increase the cost of living. In place of the existing unemployment relief system, insurance at the expense of employees and employed was to be instituted. The ordinary budget now showed an estimated surplus of 16½ billions* (paper) toward reparation payments.

The evils of currency speculation had by this time become apparent, and accordingly a law was passed in March to check exchange speculation in Germany. Only through certain recognized exchange banks, including the Reichsbank, might dealings in exchange be undertaken. Even these banks were only permitted to sell foreign exchange after having obtained information as to the buyer's purpose and furnished a statement thereof to the tax collector.

* Revenue, 103 billions; expenditure, 86½ billions.

In answer to the German note, the Reparation Commission on March 21 announced its 1922 program of 720 millions (gold marks) in cash and 1,450 millions (gold marks) in goods. Germany had fulfilled her obligations under the 10-day installment plan, paying in all 282 millions. The commission, therefore, demanded 18 millions on April 15, 50 millions monthly from May 15 to October 15, inclusive, and 60 millions on November 15 and December 15.

This demand being a material reduction from the London schedule, certain conditions were imposed upon which the granting of the partial moratorium was dependent. These were in the form of specific obligations. Germany was to raise an additional 60 billions of paper marks in the coming fiscal year, of which 40 billions were to be raised in 1922. An internal loan, which must not take the form of treasury bills discounted at the Reichsbank, and which must be of sufficient amount to balance the budget, must be raised. Plans for this loan were to be submitted before April 30. The flight of capital was to be stopped. The Reichsbank must be made independent and the prewar system of economic and financial statistics reinstated. Expenditures were to be radically reduced and Germany was to submit to a system of supervision through obligatory consultations with the guarantees committee. Lastly, Germany must either float an international loan or make a levy on the personal and real property of its citizens in order to raise a substantial sum for reparation. The commission reserved the right to revoke the moratorium if at any time Germany should cease to comply with these conditions.

In his speech in the Reichstag on March 28, referring to the Allies' demands, Chancellor Wirth was very insistent upon the outright impossibility of raising a further 60 billions in taxation and mentioned that "the cost of the armies of occupation and control commissions, where there was nothing to control, was an exceedingly heavy burden on Germany." While the suggestion of economic and financial supervision was flatly rejected, Germany would certainly proceed to stringent economies in the Government departments. In the course of the speech 14 new taxes were proposed, as well as the forced loan of 1 billion gold marks, these being enacted early in April. The final terms of the loan, as adopted by the Reichsrath in May, were for the payment of no interest up to October, 1925, and 4 per cent thereafter.

Most of these points were contained in the reply sent to the commission. The inability of

Germany to raise the extra 60 billions demanded was reiterated, as was the refusal of consent to control of revenues and expenditures. Again it was emphasized that the only means of acquiring currency to meet the reparation payments was by a foreign loan. The commission, however, insisted on the execution of the measures laid down by them. Nevertheless, it expressed its willingness "to consider any plan which the German Government might * * * propose, giving a reasonable prospect of dealing satisfactorily with the whole of the budget deficit." Coupled with the adherence to its previous decision was a threat¹ by the commission to exact penalties on May 31. Forthwith, therefore, Germany paid, on April 21, the first installment of 18 millions, and on May 16 the second of 50 millions.

In accordance with the commission's demands, Germany, at the end of May, set forth before it the steps taken toward the required financial reforms. The autonomy of the Reichsbank had been assured by the act of May 25, withdrawing from the Government the right of direct intervention in the conduct of the bank's operations, and the publication of statistics, as in pre-war days, reinstated. Economies of 24½ billions, as compared with the 1921 appropriations, had already been effected. With regard to financial control, Germany acquiesced in control by the commission of revenues and expenditures, provided it did not infringe on German sovereignty or violate secrecy as to the fortunes and incomes of taxpayers. Furthermore, Germany agreed to confer with the guarantees committee to work out suitable measures to stop the flight of capital. To this reply the commission gave its approval, and the partial moratorium was formally granted. Germany met the 50 millions installment due on June 15 by deposits in Paris, London, and Brussels.

NEGOTIATIONS FOR AN INTERNATIONAL LOAN.

In the meantime the commission had taken the step of appointing a subcommittee of experts to examine the possibilities of an international loan for Germany. The members appointed to this "bankers' committee," as it was popularly but improperly termed, were Signor d'Ameglio (Italy); M. Delacroix (Belgium), chairman; Sir R. Kindersley (Great Britain); Dr. G. Vissering (Holland); Mr. J. P. Morgan (United States); and M. Ch. Sergent

(France). The committee met on May 24 and, owing to a certain indefiniteness in its terms of reference,² requested from the commission a more precise definition of them. With regard to the most vital matter—that of the reparation payments—a majority of the commission saw no object to the committee's suggesting such readjustments as it thought a necessary incident to the proposed loan. This decision was concurred in by the British, Belgian, and Italian delegates and was personally agreed to by the American unofficial observer, but unanimity was prevented by the dissension of the French member. It was this fact which rendered the committee's work more or less abortive.

The committee pointed out in its final report that had the commission named a definite limit to any reduction of reparation payments it could have proceeded on its investigations upon a more stable basis. Failing this, had it been invited to name a limit to the payments which they thought necessary to any internal loan they would have done so. Such limit would merely have represented what popular opinion would judge to be well within Germany's capacity to pay. For want of either of these prerequisites of useful inquiry, the committee felt it could not usefully continue its discussions in response to the majority invitation of the commission, the reasons being twofold. First, France, being Germany's biggest creditor and also the dissenting member of the commission, the committee could not well proceed with its deliberations against the desire of France. Second, an unfavorable atmosphere for desirable achievement had been created by the dissensions in the commission.

The question was then taken up: Was a loan possible under circumstances of the present schedule of payments? The reply was in the negative, the avenue of approach to the problem being the possibility of various classes of investors becoming interested in such a loan. Underlying the whole question was the inability of Germany to give sufficient security. The investing public, lacking confidence in Germany's capacity to pay, and in her "will and intention" to do so, was at the present time in fear of social upheaval in Germany. Passing on, then, the committee found that "investors in the United States and Great

¹ "The commission would be obliged to exact penalties," was the actual wording used.

² According to Mr. J. P. Morgan there was a difference between the French and English texts of the terms of reference. "This difference touched the very root of the matter in that the French reading definitely prohibited the committee giving consideration of the schedule of payments as now determined * * *. The English text, on the other hand, was susceptible of a broader interpretation."

Britain would find no real attraction in a loan to Germany which was not calculated to promote the permanent settlement of the reparation problem." At the same time, neutral investors would not be attracted, owing to their having suffered heavy losses in exchange speculation and industrial competition through the depreciation of the mark. And lastly, a loan would be difficult to raise in France, because only a part of it would find its way directly back to France in reparation payments. Clearly, then, what all this amounted to was an opinion, necessarily circumlocutory, that no loan could be floated without a radical reduction of the present schedule of payments of reparation.

The report went on to offer some general observations. An essential condition of any loan to Germany was that the investing public should feel Germany was doing her best to stabilize her finances. To this end the removal of uncertainty regarding reparation payments was essential. Mere leniency, without a modification of the total obligation, was not enough. Then, again, in order to attract the American investor, the loan would have to be raised at the unanimous request of the Allies. This is particularly interesting, in view of the statement that a loan might be impracticable unless it were preliminary to other financial adjustments, such as adjustments of the external indebtedness of the Allies.

From this report M. Ch. Sargent dissented, submitting that "he could not, in order to promote a loan, contemplate new limitations on Germany's liability which did not appear to him justifiable, nor any diminution whatsoever of the rights of France recognized by the treaty."

The results of the committee's work were, then, in a tangible sense disappointing. Nevertheless, they did, at least to some extent, put before the world the enormous difficulties, based on national economic circumstances, with which those attempting an all-round settlement were faced. On the one hand was the necessity of providing for the rebuilding of the devastated areas and their restoration to their pre-war productive capacity. On the other was the desire to restore the old freedom of economic intercourse and revival of European markets. Not confined to Europe, there was the further problem of reimbursing the United States for the financial assistance rendered both during and after the war to the allied nations. The impossibility under these circumstances of negotiating an international loan for Germany in itself added to the difficulties of the situation.

PROPOSALS FOR FINANCIAL SUPERVISION.

Following the receipt of the report the commission on June 14 advised Germany to prepare measures to establish reasonable limitations of the Reichsbank's right to issue. The committee on guarantees, in conjunction with the German Ministry of Finance, had in the meantime appointed four subcommittees to investigate, respectively, revenues and expenditures, the smuggling of capital out of Germany, the German floating debt, and imports and exports and industrial data and statistics. The result was the urgent call to the Reparation Commission to take steps to stop an imminent financial collapse in Germany, and the Fischer-Schroeder mission to confer with the commission.⁹ The formal request for a 2½-year moratorium on cash payments was presented on July 12, and decision thereon deferred pending receipt of the full report of the guarantees committee.

Following the payment of the 32 millions of gold marks, mainly in the form of dollar exchange, on July 15 Chancellor Wirth, in a note to the Reparation Commission dated July 22, accepted certain further measures of financial control for the period of the expected moratorium. Representatives of the guarantees committee were to supervise all departments, particularly those dealing with revenue and expenditure, the movement of capital, and the publication of economic and financial statistics. Daily statements of the floating debt, daily reports on the Government's financial position, monthly accounts of the progress of tax collections, the receipts from customs, post offices, railroads, telegraphs, etc., and quarterly résumés of receipts and expenditures under the current budget were to be rendered to the committee. In addition, the committee was to be furnished with budget estimates, copies of all financial bills, and applications for supplementary budget credits. Statistics of foreign trade, inland and international transportation, and steel production were also to be supplied. The export of capital was to be severely penalized. A special department was to be set up in the Finance Ministry to pass upon all requests for the export of capital, and only those authorized were to be permitted to engage in the export trade. All these measures of financial control were to come into effective operation on November 1.

At this point a new element enters into the negotiations, for in reply to the German Gov-

⁹ See January BULLETIN, p. 33.

ernment's expression of its intention to suspend payments to the clearing house, the French Government on August 1 made public a note threatening "measures of retortion" unless assurances were given by August 5 that the £2,000,000 due on August 15 would be paid.

Fearing the nature of these measures, the German banks, early in July, removed their Paris balances to banks in Holland and Switzerland. Failing to give the required assurances, the "measures of retortion" were inaugurated on August 5. These took the form of the suspension of adjustments then proceeding of claims between French and German nationals, the payments to Germans for war losses in Alsace-Lorraine, the arbitration of disputed claims, the liquidation of German property, the restitution of the household effects of Germans formerly resident in Alsace-Lorraine. Further, all German property in Alsace-Lorraine was placed under seal, France having the right to sell it should Germany fail to resume payments to French citizens.

On the due date only £500,000 of the agreed payments was handed over to the French and British clearing offices. At the London conference just closed, however, it had been agreed that payment must be made within one month, and that separate agreements should be made subsequently between Germany and the several Governments, with the approval of the Reparation Commission. Germany eventually failed to meet the balance of the August payment (£1,500,000) due on September 15, and, as already noted,¹⁰ on October 23 was freed from further payments under the clearing-house scheme until July, 1923.

In the meantime the guarantees committee had completed its report, making its recommendations to the Reparation Commission on July 28. It suggested the elimination from the budget of 30 billions of marks (paper) unnecessary expenditure, the levying of a series of new and increased taxes, and the raising of an international loan, to be shared in equally by the Allies and Germany. In order to deal with the flight of capital, a matter causing increasing anxiety, the committee suggested supplementary measures to those of December, 1920, and March, 1922, already in force. Regular payments, in the ordinary course of business, might be made with a chamber of commerce authorization; but otherwise all payments abroad must be sanctioned by a foreign office visé. Exporters who could be shown to have held the

proceeds of exports abroad intentionally, and to the detriment of German economic life, should not be allowed to engage in any further exporting without special permission. Heavy penalties were to be levied for infractions of the rules.

To these measures, aimed at preventing the export of capital, were added others in the presidential decree of October 12. In addition to the rules mentioned, regarding the purchase of foreign currency, banks were debarred from purchasing foreign currencies except from such person who signed a document explaining his identity and the nature of his transaction. Permissible transactions did not include speculation or the use of foreign currency as an investment. Furthermore, the fixing of domestic prices in foreign currency—a practice which had grown common with the rapidly falling purchasing power of the mark—was forbidden.

The decision of the Reparation Commission postponing further cash payments due in 1922, and the agreement reached between Belgium and Germany in September, called for deliveries of German treasury bills in large amount. Accordingly, on September 25 the German Government handed over to the Reparation Commission 96 millions of gold marks in treasury bills, guaranteed by the Reichsbank, payable at the bank of England. This amount was in respect of the August and September payments, the balance of 4 millions being credited in respect of merchandise. Subsequently the Belgian Government announced that these bills had been discounted at English, American, and Swiss private banks. Further payments were made in accordance with the plan.

THE PAYMENTS—THEIR NATURE AND DISTRIBUTION.

At this time the latest published account of the Reparation Commission showed total payments by Germany, up to August 31, 1922, amounting to nearly 7½ billions of gold marks, made up as follows:

[Thousands of gold marks.]

	Payments made.	Balance owing.
(a) On pre-May 1, 1921, army costs and coal advances account.....	2,621,650	913,084
(b) On capital debt account.....	2,504,342	134,999,658
(c) On post-May 1, 1921, army costs account....	268,190	56,160
(d) On schedule of payments account:		
On installments due to Aug. 15, 1922.....	1,952,923	1,649,153
On installments falling due Oct. 15.....	38,023	138,023
Total.....	7,385,128	137,580,032

¹ Credit.

¹⁰ See January BULLETIN, p. 35.

Of the amount paid, 21 per cent was in the form of gold and foreign currencies, 45 per cent in deliveries in kind, and 34 per cent in State properties in ceded territories. The following are the actual figures (in thousands of gold marks):

I. Gold and foreign currencies:	
(a) Direct payments.....	1,447,814
(b) Receipts from other sources on German account—	
1. Payment by Denmark re Schleswig-Holstein cession.....	65,000
2. Destroyed war material sold.....	44,692
3. Sundry items.....	4,738
	114,430
Total.....	1,562,244
II. Deliveries in kind (provisional figures):	
(a) To allied and associated powers.....	3,260,878
(b) Sold to Luxemburg, Textile Alliance of United States, etc.....	57,664
	3,318,542
III. State properties in ceded territories (provisional and incomplete figures); exclusive of Schleswig-Holstein cession in I (b) 1.....	
	2,504,342
Total.....	7,385,128

Of the deliveries in kind the most important in point of amount were (a) rolling stock handed over under the armistice convention; (b) coal, coke, and lignite; and (c) ships; constituting 25, 26, and 21 per cent, respectively, of the total amount. Omitting deliveries under the armistice convention, coal, etc., has comprised 40 per cent of the deliveries and ships 33 per cent. The full details of the deliveries are given below (in thousands of gold marks):

Under armistice convention:	
Abandoned war material.....	317,804
Rolling stock (127,039 wagons, 4,553 locomotives).....	826,653
Motor lorries (4,959).....	17,509
Fixed railway material (1,896 metric tons).....	2,461
Agricultural material.....	22,709
Louvain library.....	1,451
Proceeds of reparation recovery act.....	114,744
Under Annex III:	
Ships (2,593,057 gross tons).....	706,129
Inland water craft and installations.....	24,836
Under Annex IV:	
Reconstruction material.....	19,810
Live stock (99,300 horses, 175,439 cattle, 218,076 sheep, 21,664 goats, 245,688 poultry).....	157,073
Miscellaneous under Annexes II and IV.....	110,268
Under Annex V:	
Coal, coke, and lignite (actual tonnage, 41,019,432 metric tons; coke, converted tonnage, 45,760,053 metric tons) ..	776,618
Coal, credit in suspense.....	30,970
By-products of coal (121,855 metric tons).....	22,855
Under Annex VI:	
Dyestuffs (17,363,990 kilograms).....	46,937
Pharmaceutical products (753,775 kilograms).....	12,813
Under Annex VII: Submarine cables.....	
	49,000
Miscellaneous.....	236
Sales by Reparation Commission:	
Coal, coke, and lignite to Luxemburg (actual tonnage, 2,525,314 metric tons; coke, converted tonnage, 3,406,337 metric tons).....	50,074
Dyestuffs to United States Textile Alliance (2,341,497 kilograms).....	4,564
Dyestuffs to German buyers (626,805 kilograms).....	3,026
Total.....	3,318,542

In the final table below there is shown the division of the receipts amongst the various powers:

DISTRIBUTION OF RECEIPTS.

[Thousands of gold marks.]

	Cash and deliveries in kind.		Cessions of State properties on reparation account.	Total debits.
	In repayment of net army costs and coal advances.	Upon reparation account.		
United States.....	1 59,491			59,491
British Empire.....	2 955,161	141,922	538	1,097,621
France.....	3 1,322,709	101,013	2,042	1,425,764
Italy.....	39,106	157,723		196,829
Japan.....		8,978	59,000	67,978
Belgium.....	254,640	1,208,202	635	1,463,477
Other powers.....		136,627	6,031	142,658
Total.....	2,631,107	1,754,465	68,246	4,453,818
Cession to—				
France—Saar (provisional).....				300,000
Poland (provisional).....				1,730,582
Danzig (provisional).....				305,514
Other items in suspense and undistributed assets:				
Pre-May 1.....				563,289
Post-May 1.....				44,350
Total.....				7,397,553

¹ 1,007,283,000 gold marks still unpaid.

² 60,159,000 gold marks still unpaid.

³ 155,635,000 gold marks still unpaid.

Reverting now to the figures of total payments, it is found that 39 per cent of the total was absorbed by the expenses of occupation and the coal advances made under the Spa agreement. If to the actual amount paid on this account be added the amount still owing, the full expenses of occupation and coal advances are equal to 56 per cent of the payments.

Another important fact is that up to August 31, 1922, Germany had reduced the capital sum owing by her by little more than 1 billion gold marks. This result of the early years of payment is made still less encouraging by the large proportion of the total payments which consist of the handing over of capital goods. What might be called "current payments"—that is, payments out of current production—amount to only 65 per cent of the total, or 4,766,356,000 gold marks. So that apart from cessions of State property, etc., the capital debt would have stood on August 31, 1922, at just about the amount at which it was fixed on May 1, 1921. Such, in a word, is the net result, from Germany's point of view, of the events outlined in the preceding series of articles.

ADDENDUM—PAYMENTS UNDER OTHER TREATIES.

Treaty of Neuilly.—The inter-allied commission appointed under the treaty with Bulgaria¹² began an investigation into the economic condition of the country in the spring of 1921, the result being the postponement of cash payments for one year. A further partial moratorium was proposed, subject to certain guaranties. These being unacceptable in toto, the commission announced, on July 21, 1922, that the full provisions of the treaty had again come into force, and that the 112,500,000 gold francs already due therefore became payable immediately. The annuity payable under the treaty amounts to about 131,000,000 gold francs (about 3½ billions of leva at present rates of exchange). The payments made up to August 31, 1922,¹³ are as follows:

(Millions of leva.)

	Allied army in Bulgaria.	Various allied commissions.
Nov. 11, 1918, to Aug. 9, 1920.....	285.6	22.0
Aug. 9, 1920, to Apr. 1, 1921.....	6.7	53.8
Apr. 1, 1921, to Aug. 31, 1922.....	14.0	111.8
Private reclamations from Nov. 11, 1918, to Aug. 31, 1922.....	108.1
Total.....	414.4	187.6

Thus, the Bulgarian Government has already paid about 600 millions of leva on occupation and control, an amount estimated¹³ to be equivalent to some 2 millions of pounds sterling. In addition, there is still owing over and above these amounts a sum of 120 millions of leva in respect of the military mission of control. Up to May 31, 1922, deliveries in kind had been made valued at the following amounts:

	Millions of leva.
Railway material.....	250.0
Coal delivered to Serbia.....	195.0
Cattle delivered to Serbia, Greece, and Rumania..	162.5
Total.....	607.5

*Treaty of St. Germain.*¹⁴—The subcommittee of the Reparation Commission appointed to deal with the case of Austria began its work in November, 1919. In this case, however, the commission has been concerned, not so much with securing payments, but with extending

the relief which from time to time appeared necessary for Austria's rehabilitation.

Apart from the periodic extensions of credit the first important step to this end was taken in May, 1921, when a delegation, consisting of MM. Avenol (French) and Glückstadt (Danish) and Sir Drummond Fraser (British), submitted to the financial committee of the League of Nations a scheme of financial restoration. It was proposed to set up a new bank of issue, with one-half foreign capital, to be given a 25-year monopoly of note issue. The essential conditions for the inauguration of the scheme included the suspension for at least 20 years of liens held on Austrian assets in respect of reparation and relief credits. Great Britain and France thereupon agreed to accept a delay of 20 years in pressing their liens derived from the treaty of St. Germain.

During the early months of 1922 negotiations were proceeding for loans abroad, to be raised in England, Czechoslovakia, Italy, and France, but no success had been met with in attempts to secure financial aid from the United States. In June the Reparation Commission announced its preparedness to release for 20 years the revenue from State forests, salt mines, and domains as security for the new bank, and its approval in principle of the liberation of the customs and tobacco monopoly, to be used as security for a foreign loan. The actual release of the assets was communicated by the commission on August 5.

On September 20 the League authorized the raising of a loan by Austria up to 560 millions of gold crowns to meet the estimated budget deficits for the next two years. The internal financial reforms were to be controlled by a League of Nations committee, consisting of representatives of Great Britain, France, Czechoslovakia, and Italy.

Early in October these powers entered into an agreement assuring the maintenance of the territorial sovereignty and integrity of Austria, and that no economic or financial measures would be taken to threaten her independence. The loan to Austria was not to exceed 650 millions of gold francs, and the four powers were to guarantee the service of the annuity of the loan up to 80 per cent. Austria on her side agreed on financial reforms, the pledging of the customs and tobacco monopoly as security for the loan, and to dispose of none of the proceeds of the loan without the permission of a commissioner-general, appointed by the League of Nations.

¹² See November, 1922, BULLETIN, p. 1295.

¹³ According to the London Economist, Nov. 18, 1922.

¹⁴ See November, 1922, BULLETIN, pp. 1295, 1296.