I circulate for the information of my colleagues a note on the financial aspects of the French and Belgian replies to the British Note of 11th August last.

N. C.

TREASURY CHAMBERS S.W.
5th October, 1923.
PART I

FINANCIAL PROPOSALS OF FRENCH NOTE OF 27th AUGUST.

1. The objections to the financial proposals in the French Note may be summarised under three heads, 

A. France's demand for 26 milliards free of her debts.

B. Her attitude towards an impartial enquiry into Germany's capacity to pay and towards a moratorium.

C. Her attitude towards inter-allied debts.

A. The Demand for 26 milliard gold marks free of debt.

2. Mr. Bonar Law in January last put Germany's capacity to pay at a minimum of 40 and a maximum of 50 milliard gold marks, but his plan provided that 8 milliards should be set aside for costs of occupation, clearing office balances, etc., leaving the estimates of reparation payments proper as - minimum - 32 milliards; maximum - 42 milliards. To rely on as much as 42 milliards, today, would be manifestly unsafe in view of the disorganisation and loss caused by the prolonged occupation of the Ruhr.

If, however, Germany could pay 42 milliards, this would be divided under the present French proposals 26 milliards to France and 16 to the other Allies, though under the Spa agreement France is entitled to 52% only (i.e. 21.8 milliards). Further France declares herself unable to pay any part of her
her debts unless more money is paid to her by Germany.

3. France's defence for her claim is based on the fact that in April, 1921, the Reparation Commission valued the German liability for damages under the Peace Treaty at 132 milliards. But this was a valuation of damages and nothing more; the Allied demand on Germany (under the "Schedule of Payments") - presented within a week of the publication of the valuation - was for the payment of certain annuities, the present value of which on a very optimistic estimate made by the Rapporteur of the Finance Commission of the Chamber would not exceed 65 milliards. For this decision so limiting the Allied claims on Germany, the French Prime Minister, M. Briand, shared full responsibility with the other Allied Prime Ministers.

If the Allies had ever had an effective and realisable claim on Germany for 132 milliards (£6,600 millions) France after paying her debts would have got 44 milliards and Great Britain 38 milliards, free of debt. France now claims 26 out of 44, Great Britain 0 out of 38.

Under the Schedule of Payments, France would have got 14 milliards free of debt and Great Britain 24 milliards free of debt. Great Britain claims 0 out of 24, France claims that her 14 be increased to 26.*

Yet

* All these calculations are in reality much too favourable to France. They are based on what is clearly a grossly excessive estimate of the sums due to France by certain European countries while from the debts due to Great Britain the Russian debt, 13.7 milliards, is omitted.
Yet the French Note asserts that England renounces nothing of the Schedule of Payments and makes no sacrifice in return for those which she demands from her Allies.

4. An alternative defence to the 26 milliard claim is that it represents the expense to France of restoring her devastated regions. This is a sacrosanct claim and like to no other ("notre créance reparations, qui est sacrée et ne ressemble à aucune autre créance"). It must therefore, say the French, have complete priority over (1) similar claims by other nations, (2) over claims in respect of war pensions and (3) over inter-allied debts, which latter belong to the inferior category of "general costs of the war".

This is not a position which Great Britain could possibly accept. It may be observed that Belgium has now stated that she has no intention of suggesting a priority for devastated regions over British shipping losses.
5. Franco's attitude towards an impartial inquiry into Germany's capacity to pay, and towards a moratorium.

5. The French Government rejects the concession which the British Government had made to meet French views when they agreed that the body conducting the expert inquiry should report to the Reparation Commission. The proposal for an impartial inquiry is refused as being either useless or harmful. It is urged at many points that the Reparation Commission must be left free to deal with the problem by the application of Article 234.

6. It is true that Article 234 of the Treaty empowers the Commission to grant delays and modify obligations which are excessive, though the actual total of the debt cannot be reduced without the unanimous consent of the Government represented. But the powers given by the Treaty have not been used. Indeed the present phase of the disputes between England and France over reparations has its origin in the refusal of the majority of the Commission to deal seriously with an application by Germany for a moratorium in July 1922. It cannot be pretended that the conduct of the majority in the critical months, August 1922 to January 1923 was not dictated by political considerations.

7. Even if this experience were forgotten the proposal to rely on Article 234 cannot be taken seriously. The French Government in the annex to their Note admit that the present capacity of payment by Germany is equivalent to zero. That being the case a moratorium should be granted pending a restoration of her capacity. Such was the intention of Article 234. But
the French Government have entirely different views. They expressly state that "During the period required for re-establishment of her finances Germany must effect such deliveries in kind and in capital as the Commission may consider possible, the Allies meanwhile retaining the securities which they hold". Germany is to be required to restore her finances while the resources of the Ruhr are closed to her, while the customs, coal tax, levy on exports etc. are collected for reparations, and while the railways of the Rhineland and the Ruhr are worked by the French and Belgian authorities at the cost of the Reich.

8. Moreover the Reparation Commission have no power to reduce Germany's payment except with the assent of all the Allied Governments.

C. France's attitude towards Inter-Allied Debts.

9. The critical passage of the French Note is the following:­

"France has never repudiated her debts and will never repudiate them. But she is convinced that no British Government will ever apply to an Ally the pressure which the British Cabinet does not consider it possible to apply to-day to the former enemy of both countries. We can, therefore, only repeat that we shall not be in a position to re-imburse our debt to Great Britain or even to pay her interest on that debt, until the German payments have enabled us to complete the reparation of the damages caused by invasion and battle on our soil".

10. The Treasury Bills in the hands of the British Government are direct marketable promises to pay.
signed by the Government of France and delivered for
due consideration, the fulfilment of which was not
subordinated and cannot now be subordinated to extraneous
and irrelevant questions as to German payments. An
attempt to impose such conditions would not be consistent
with the statement that France has not repudiated and
will not repudiate her debts.

11. On the question whether France is financially
capable of paying either the interest or capital of her
debt at the present time, the following facts may be
noted:

(a) The French Government succeeded in repaying
external commercial debts between the years 1919 and
1921 to the extent of 11,015 million francs. These
figures it is understood are not nett repayments, as
the French Government has been contracting other loans
abroad, but the fact that she has been able to raise
such loans is an indication of French credit.

(b) During the past few months loans for very
substantial amounts have been granted to the Governments
of Poland, Czecho-Slovakia and Romania. At present
a loan of 400 million francs is being raised with the
approval of the French Government in favour of the
Belgian Government.

(c) All these facts suggest that the commercial
balance of France is favourable, and this was definitely
stated to be the case by the French Minister of Finance
in an interview published on the 19th August.

(d) The statistics of French Commerce for the
present calendar year show that exports to Great Britain
have increased during the first 7 months by no less than
1,355
1,355 million francs. It is true that imports from Great Britain have also increased by 1,215 million francs, but this largely represents coal which the French could have got from Germany had they not invaded the Ruhr. The increase in exports would be roughly sufficient to enable the French to pay 3 per cent. on their debt to us.

(c) Taxation per head in France is £5.10.3; in Great Britain £15.18.1. Remission to France of debts within her capacity is equivalent to the imposition of taxation on the British taxpayer. Interest on French debt alone is nearly 6d. in the £ in Income Tax. Interest on Italian debt about the same.

12. It would be difficult for the French Government to maintain that it cannot pay anything on its debts, and possibly what the Note means is that the British Government ought not to ask for them. Now Great Britain has never proposed (as suggested by the French Government) to apply pressure to France which has not been applied to Germany; this would seem sufficiently obvious from the fact that Germany has been compelled to pay some £400-500 millions since the Armistice, while France in a much better economic position has paid nothing at all. Moreover the British Government have made very great concessions by limiting their demands on their Allies to the amount of their own debt to the United States Government, and by reducing them further by the full amount of any sum which they may recover from Germany, provided that the Allies will adopt a policy which will enable payments to be recovered from Germany.
1. The Belgian Government considers that the first step is for the Allies to agree how much Germany has to pay and how much payments are to be distributed among themselves. Everyone is agreed to-day that the figures of Inter Allied Debts must be examined at the same time as the reparation figures.

(Great Britain does not accept the first proposition, believing that the first step must be to ascertain what Germany can pay. The French Government dissents from the second proposition).

However the Belgian Government proceed to point out that France's claim may be taken as 26 milliard gold marks, Great Britain's as 14.2 milliards, her own 5 milliards and Italy's 5 milliards. These figures (which total 50.2 milliard gold marks) might seem to indicate that progress has been made. If all inter allied debts can be cancelled, the Belgian Government think that the Allies are in a position to offer Germany a reduction in her liabilities under the Schedule of Payments, leaving her with a task she is easily able to accomplish. But the apparent agreement is wholly fictitious.

2. The following criticisms illustrate the divergence between the British standpoint and the Belgian standpoint.
set out in the above paragraph:-

(a) Under the Belgian plan Germany is to pay a present value of 50.2 milliard gold marks to Great Britain, France, Italy and Belgium. Allowing for the claims of the other Allies and for those of the Dominions and India, the figure would need to be increased to at least 56 milliards. But the British estimate of the ability of Germany to pay reparations proper (as distinct from costs of occupation etc.) was under the Bonar Law proposals of January 32 milliards (minimum) to 42 milliards (maximum). The maximum would be put lower today in view of the disorganisation consequent on the Ruhr occupation.

If the United States of America decline to cancel or accept worthless German paper in lieu of the French and Italian debts, the 56 milliards must be raised to 80 milliards. So far from being below the Schedule of Payments figure, we should be a long way above it - Bokanowski's highest estimate of the latter being 65 milliards.

(b) On the British view no final settlement can be reached on the basis of Germany paying 50 milliards or upwards. The whole trouble will arise again in the near future.

(c) Great Britain has never agreed to accept her 14.2 milliards from Germany. Germany's capacity should be impartially examined so that there may be a reasonable assurance that the total demanded of her is within her power to perform. Of the total so fixed, Great Britain's share
share is 22% and the receipt of this sum would enable her to reduce her claims on the Allies pro tante below the 14.2 milliards which represent her debt to the United States of America. It is possible that Great Britain might agree to accept German bonds in lieu of the whole or part of the Allies' debts to her, but they must be sound German bonds representing obligations she is satisfied that Germany can fulfil.

If the total demanded from Germany is 50 milliards or upwards, manifestly Great Britain cannot accept German bonds forming part of that total as sound security which would justify her in cancelling inter allied debts.

(d) While the full justification for the British figure has been published, no case has been made out for giving France 26 milliards free of debt, Italy 5 milliards free of debt or Belgium 5 milliards. Everyone of these claims is in excess of what the respective countries would have received free of debt, if the Schedule of Payments had in fact been executed.

The weakness of the Belgian plan is that it proposes to settle what Germany has to pay on the basis of what we should like her to pay not on a reasoned expert estimate of her capacity. There is no prospect of settlement along these lines, and meanwhile Great Britain would have finally lost the debts due to her by the Allies, for no return.

3. A great part of the Belgian note is taken up by a defence of Belgian priority - which the British Government had not in fact proposed to touch - and by elaborate calculations as to what Belgium has received already. On the latter point the official figures of the Reparation Commission respecting lend of debt, at the Schedule of Payments but in
Commission show that she has received £73 millions out of the £117 millions already distributed to the Allies on account of reparations proper.

4. Belgium's own claim is for 5 milliards which added to 1½ milliards already received makes 6½ milliards (£325 million).

This figure is in excess of the figure (5.2 milliards) she would have received had the Schedule of Payments in fact been executed.

In explanation of the claim it is stated that it represents 13½% of an assumed German payment of 50 milliards. At the Spa Conference Belgium was given a percentage of 8½, based on material damages and cost of war pensions. Belgium argues that the percentages should be recast on the basis of material damages only, raising her percentage to 13%. (She is quite willing to include British shipping losses within material damages i.e. she does not claim an absolute priority for devastated regions). This proposition would not very seriously affect Great Britain but would affect Italy seriously. There are no very decisive theoretical arguments for or against but there is an overwhelmingly strong practical argument, viz. that we do not desire any return of the prolonged and annoying discussions among the Allies as to percentages from which the Spa settlement delivered us.

5. Various figures, not very striking or conclusive, are given as to the actual expenditure by Belgium in restoring the devastated regions and on war pensions. Leaving out inadmissible claims, such as that (already many times rejected by France and Great Britain) in respect of
of the German marks left in Belgium, one would necessarily conclude that to give Belgium 6½ milliards gold marks would leave her in a position far superior to that of any other Ally. The burden of her war debts has been entirely transferred from her and her expenditure on war pensions is on a tiny scale compared with that of France or Great Britain casualties having been low.
APPENDIX.

1. As certain phrases recur repeatedly in these documents, it may be well to explain their exact meaning:

(a) The famous "132 milliards" of £6,600 million.

   This is the judicial valuation by the Reparation Commission (April 20th, 1921) of Germany's Treaty liabilities in respect of material damages and war pensions. It has nothing to do with Germany's capacity or obligation to pay.

(b) The Schedule of Payments of May 1921.

   This was a decision drawn up by the Allied Prime Ministers (JM Jasper, Briand, Lloyd George, Sforza, Hayashi) and subsequently prescribed by the Reparation Commission fixing the time and manner in which Germany must pay.

   Germany's liabilities are fixed at an annuity of £100 millions plus a sum equal to 23% of the value of her exports - far less than the 132 milliards present value.

(c) The A, B, & C. Bonds.

   These are the connecting link between the annuities and the 132 milliards.

   Germany was to deliver bonds to a total amount of 132 milliards. Of these, 50 milliards (12 milliards "A" bonds and 38 milliards "B" Bonds) were to bear 5% interest and 1% sinking fund from the outset. The balances were to remain dormant until their service (5% interest and 1% sinking fund) could be provided for out of the annuities.

   Under this arrangement, if it had worked, the A. and B. Bonds would have been extinguished in a period of
36 years from the commencement of the scheme and the C. Bonds by instalments in periods of 36 years from the commencement of provision for the service of the respective blocks.

(d) The estimate of Monsieur Bokanowski.

As the greater part of the German debt (i.e., C. Bonds) does not become operative until an undefined future date, clearly the present value of that debt is very far below its nominal value. We have used the figures set out by a well-known French Parliamentarian, who was Rapporteur of the French Budget, in this official report report to the Chamber of Deputies.

On the 5% tables, the A. and B. Bonds are worth 60 milliards and he estimates the C. bonds in the 5% table at 15 milliards viz., in all 65 milliards or £3,250 million. This is a high estimate of what the Schedule of Payments was worth, if carried out, and it was deliberately chosen by the British Government as being a high estimate which ought not to be open to cavil. Monsieur Bokanowski himself did not think it safe to capitalise at 5% and the result he finally reaches is not 65 but 49 milliards, no more than £2,450 million. Even that figure he qualifies by saying that he was working on very optimistic hypotheses.

(e) The British Paris plan.

The British Government has long been of the opinion that the C. bonds are worthless. At Paris in January, Mr. Bonar Law put Germany’s capacity to pay at a maximum of £2,500 million and a minimum of £1,975 million. This
This was not all for reparations but included costs of occupation, clearing office balances etc. In other words, even in January the British Government regarded the C bonds as worthless and the A and B Bonds as worth substantially less than their face value of £2,500 million.

The Ruhr occupation has certainly depressed Germany’s capacity to pay: for many reasons, an expert enquiry is desirable before fresh estimates are framed.

(f) "Article 234".

There repeatedly occurs throughout the second part of the French reply the phrase "we demand the application of Article 234". This article instructs the Reparation Commission from time to time to consider the resources of Germany and empowers the Commission after hearing German representatives to extend the date or modify the form of German payments, but not to reduce except with specific authority of the several Governments represented. So far from objecting to this, it is part of our case against the majority of the Commission that they have failed to make proper use of this Article in the past.