

Problems Caused by the Occupation of the Ruhr and the Financial Situation Arising from it.

Text of the Address (Slightly Revised and Completed), by Mr. Gaston Liébert, Director of the French Bureau of Information in the United States, at the Annual Meeting of the New York State Bankers' Association.

Atlantic City, (New Jersey)

June 11th, 1923.

D650
.R8L55

- THE PROBLEM OF THE REPARATIONS OF FRANCE'S DEVASTATED REGIONS—FINANCIAL SITUATION OF THE FRENCH GOVERNMENT AND NATION BEFORE AND AFTER THE GREAT WAR.
- HOW FRANCE FULFILLED HER OBLIGATIONS AFTER THE WAR OF 1870-71—VOLUNTARY DEFAULT OF PAYMENT ON THE PART OF GERMANY AFTER THE TREATY OF VERSAILLES. WILFUL DEPRECIATION OF THE MARK. EXPORT OF GERMAN CAPITAL.
- NECESSITY OF A TEMPORARY OCCUPATION OF THE RUHR BY FRENCH AND BELGIAN TROOPS AS A MEANS OF PRESSURE TO COMPEL GERMANY TO PAY.

Gentlemen, when I was asked to speak before you about the present situation in Europe and especially about the occupation of the Ruhr, in connection with the general financial situation here and over there, I thought that there could be no better opportunity than this one to make a few facts known to you, who are among the most enlightened people in this great country.

My duty is simply to make things a little clearer to you, as nothing that I will say is really new. The papers print every day long articles concerning Europe, but those articles or correspondences are sometimes so confused, they contain such a mass of information in very small type, that one has not always the time nor the courage to read everything that is printed. So it may be of some use that I should try and give you a short condensation of facts which have all been checked up, and of figures which are strictly accurate as they come from absolutely reliable sources, some of them from the data of the Commission of Reparations.

That question of the reparations, linked-up of course with the occupation of the Ruhr, is not only a political and

financial problem, but it is also (and I call your particular attention to that fact) a problem of mere honesty and of mentality.

When the Treaty of Versailles was signed 4 years ago, all the powers agreed that there should be no such thing as a "war-indemnity" imposed upon the vanquished. We did away with that old principle of a sort of penalty on the vanquished just because he had been unfortunate enough to be beaten, but as a matter of justice, it was agreed that Germany and her Allies should have to pay for the damages of the war which their armies occasioned in Belgium, mostly in France and to a certain extent, in Italy and in England. It was simply a matter of justice, reparations for actual damage done—which is quite another thing from the "war-indemnities" which had been imposed upon France after the Franco-Prussian War of 1870-71.

In May 1871, at the Treaty of Frankfort (and previously, at the preliminaries signed at Versailles in February 1871), the German Government compelled France, among other things consequent to the war, to pay a war-indemnity of 5 billions of francs, which nowadays would mean probably 20 or 25 billions of francs owing to the depreciation since that time in the purchasing value of money. Besides, France had to pay that money in gold and in German currency, and the expense of the conversion charged to France's debit-account, amounted to 341 millions of francs.

That was not all. We had also to pay for the cost of the German occupation forces until full payment of the war-indemnities, damages caused by German invasions, etc. This came to 659 millions of francs. Besides, the City of Paris had to pay to the German Army a war-contribution of 200 millions of francs. The total was a little over 6 billion 500 million gold francs.

That, mind you, was to be paid in gold, in German currency and by instalments, the last one, of 3 billions of francs falling due on March 2, 1874.

What did the French Government and the French people do after that Treaty had been signed? I am not speak-

Gift

Carnegie Inst.
AUG 5 1924

ing here of the territorial clauses, of the cruel necessity for us to give up two of our best and most cherished frontier-provinces, Alsace and Lorraine, which were grabbed from us by Germany. I am speaking only of the financial side of the question.

What the French people did then, was to back up their Government, to turn out their pockets, to get all the money out of them, to take all their savings out of the banks, to subscribe to all the loans put on the market by the French Government for the purpose of paying that indemnity as rapidly as possible, because the French nation at large considered that its plenipotentiaries at Frankfort having signed that Treaty, it was a debt of honor on the part of every Frenchman to help his government pay that indemnity as quickly as possible. (Applause).

It was a hard thing, a particularly hard one, in those days, to pay 6 billion odd francs in such a short time, (3 years), so much so that Bismarck (advised by Bleischroeder, who was the great Berlin financier of that period) considered it absolutely certain that we would not pay in time and he had already anticipated that fact as early as the latter part of 1871, and also in 1872, by preparing instructions to the military commanders of the German Army of Occupation, which, as a guarantee of payment were holding with their troops all our Northern and Eastern Departments, in a view to resuming and extending that occupation if circumstances warranted it; all the orders were ready and France would not have been spared had she not paid in full and in due time.

To their utter surprise and dismay, thanks to the splendid spirit shown then by the French people who subscribed with the most patriotic devotion to the war debt loans put on the market in June, 1871, and July, 1872, thanks also to the financial help of some of our foreign friends, among whom were some of your great financiers of that time, we paid the last cent on the 5th of September, 1873, six months before the date fixed by the Treaty. (Applause). This was the attitude of an honest nation, of a nation whose first principle has always been to fulfill its engagements, no matter how hard it is to do so.

Compare that with the attitude of Germany since the signing of the Treaty of Versailles in 1919: At the Treaty of Versailles, no fixed sum of indemnity had been put down, for the excellent reason, that at that time, it was impossible to obtain complete and accurate valuation of the damage caused in France, Belgium and Italy. The damage was very large. It affected our factories, our farms, our mines (as you know our coal-mines of Lens were utterly and wantonly destroyed when the Germans knew they had to retire), it even touched our soil, it even touched our fruit-trees, which had been cut down without any particular reason except that of a malicious purpose. The damage was tremendous and it was the richest part of France which had been wantonly destroyed in that way. It was the part which, from an agricultural and also from an industrial point of view, was the most productive of all and which represented before the war, one-fifth of the total production of the country.

It meant hundreds of thousands of houses; I could tell you in detail how many thousands of churches, schools, factories there were, that had to be rebuilt; in some cases whole villages had been obliterated and it took considerable time for the many technical commissions sent to the destroyed areas to ascertain exactly the total damage. So it was agreed that a certain commission, called the Commission of Reparations, composed of representatives of the Allies, would set to work, concentrate all the information gathered on the spot by experts, so as to come to an exact valuation. Germany had simply agreed in principle to pay the total amount of damages fixed by that Commission, which was to tell the German Government before May 1, 1921, the total amount to be paid.

Still, before signing that Treaty of Versailles in 1919, Count von Brockdorf-Rantzau, who was the chief German representative, had tried to obtain that a reduced lump-sum should be fixed immediately. He offered then 100 billion gold marks. The Allies thought that certainly, a sum so small as that, could not be sufficient to cover all the damages, and they considered shortly afterwards that the damage probably would come to at least 375 billion gold marks.

The year following, at the Conference of Boulogne, in June, 1920, Germany was put down to pay 269 billion gold marks, in the following way: 3 billions annually during 42 years after May, 1921; 3 billions for 5 years and 4 billions after May, 1926.

At the Conference of Spa in July, 1920, Germany agreed to deliver 2 million tons of coal monthly, in exchange for France's cash advances. Further occupation of German territory was already provided for as a sanction. (It is an extraordinary thing that France, being the creditor nation and needing coal, should be asked to advance money to Germany for coal supplied by the vanquished nation. This was one of the most curious things that was ever proposed and accepted).

At Brussels in December, 1920, a new payment-plan was devised, making things easier for Germany.

At Paris, another Conference was held in January, 1921. The German debt was scaled down to 226 billion gold marks, plus ten per cent on German exports.

At the Conference of London in March and April, 1921, the German debt was reduced to 132 billion gold marks. (That is the most important figure to remember).

At London in May, 1921, Germany accepted the above decision of all the Allies, of paying 132 billion gold marks. A schedule of payment was then drawn up and Germany agreed besides to a plan of financial reform.

At Wiesbaden, in October, 1921, an agreement was signed between Mr. Rathenau and M. Loucheur for payment in kind of part of the reparations.

At Cannes, in January, 1922, Germany was granted a short moratorium and was called upon to submit a plan of financial reform.

At Paris, in March, 1922, at a Conference of experts, Sir Robert Horne, Chancellor of the British Exchequer, proposed 45 billion gold marks as the negotiable part of the German debt.

At Paris, in March, 1922, the Commission of Reparations made some additional concessions to Germany on the schedule of payments, but insisted on financial reforms.

At Berlin, in July, 1922, Germany agreed to start on a new financial policy.

At London, in August, 1922, Germany asked for a new moratorium.

At London, on August 31, 1922, Germany was granted a four months' moratorium.

At London again, in December following, the Premiers of France, England, Italy and Belgium rejected the German proposals.

Lastly, at Paris, in January, 1923, Mr. Bonar Law's plan was rejected by Mr. Poincaré.

In short, in January, 1923, after 16 conferences or parleys, notwithstanding the long and constant patience and moderation of the French Government and people, the reparations' problem had not advanced one step nearer its solution. The more the Allies reduced their demands, the more concessions they made to Germany, the more Germany reduced her offers.

In 1919, the Allies wanted 375 billion gold marks; Germany offered 100 billions.

In 1920, the Allies' demand came down to 269 billions; Germany offered then only 3 to 4 billions annually for a period not defined.

In 1921, the Allies reduced their demands to 132 billion gold marks; Germany offered 50.

In 1922, the Allies declared they would be satisfied with 50 billions, but Germany offered nothing and even applied for an international loan of one billion gold marks which she considered necessary to balance her budget and stabilize the mark.

In 1923, the last offer of Germany amounted only to 30 billion gold marks, with no tangible guarantee and with so many strings attached, that this offer represented really only about 16 billions of marks, an offer which was really absurd. It was so indicated (even if the expression itself was not used) by the British Prime Minister in his note sent to Germany in answer to that offer.

As a matter of fact, the total payments made by Germany to all the Allies, or rather to the Commission of Reparations for the account of the Allies, amounted last December to the following figures:

	Gold Marks
In cash	1,878,515,000
In kind	3,495,006,000
State Properties	2,553,905,000
Treasury Receipts	13,000,000

TOTAL	7,940,426,000
-----------------	---------------

Out of that total 5,184,257,000 gold marks were divided up among the Allies by the Commission of Reparations; 2,756,169,000 gold marks have not yet been divided up among the Allies and they are kept by the Commission of Reparations to the credit of Germany and will be divided up later.

Out of those figures, France received only up to last December, 1,791,000,000 gold marks, divided as follows:

	Gold Marks
In cash	143,649,000
In kind	1,345,112,000
Cessions in the Saar Valley	302,042,000

TOTAL	1,790,803,000
-----------------	---------------

I am not going to give you here the details of how we used that, as I think it is unnecessary for my purpose today.

While Germany, since 1919, has kept whining, complaining to the world that the Allies were demanding too much of her as reparations, instead of following the example of France after 1870-71 and exerting all of her power, all her energy to pay her just debt, she has been all that time following the most extraordinary financial policy: Her rich and powerful industrialists of the Ruhr notably (and also of the other parts of the Reich) have been exporting their capital abroad: to this country, to South America, to the Scandinavian countries, to Spain, to Switzerland, to Holland, even to China, so as to shelter that money in case anything should happen and they should be called upon to share the financial responsibilities of the whole German nation.

Yes, they have their sound money (gold) deposited in banks all over the world and it is said in some quarters—although an exact valuation in such matters is almost impossible—that these sums amount to at least 4 billion dollars. Such an operation in such circumstances is called by a certain name in business, when a debtor deliberately conceals his assets in order to defraud his creditors: I am not going to use that word, but you certainly understand what I mean.

That is not all. The German Government deliberately caused the depreciation of its currency by manipulating its mark in the most scandalous fashion, by starting without ever stopping, the printing-press going, and having it work at such a speed that the mark has gone down to practically nothing. Besides, instead of taxing their people to the limit of their capacity so as to increase the general budgetary resources of the Reich, they allowed them to get away with taxes which in 1921, were hardly more than one-half per capita what the French tax-payers had to pay. Then the German Government came to us and said: "What can we do? We can't pay you in gold. See what our currency is worth!" Yes, but who is responsible for the depreciation of that currency to a point where it takes today more than eighty thousand marks to equal one dollar? And we all feel that the mark may even drop very much lower.

There is even something more: There still was money left in Germany. The German Government, instead of paying its reparations, used it to build a new mercantile marine, which is growing more and more powerful each year, in improving its canals and other waterways, its railways (some of them of a strategical value only) and in improving all the public works in Germany.

Is that the proper attitude of an honest debtor who should first of all pay his just debts? What would you think in ordinary business, of a person who behaves that way? When you have to deal with a man who owes you money, who has been unfortunate in his transactions and who comes to you, when the date of payment arrives, and shows you frankly what his situation is, explains to you his

condition and applies for consideration, if you are satisfied that the man is really honest, that his default in payment is not due to his fault or bad will, you will give him time and even help him. But if you have had the proof, not only once but repeatedly, that your debtor has been dishonest with you, that he has put aside his capital, his assets, that he is spending his money wantonly and lavishly, instead of putting that money aside in order to pay his debts, what would you do? You would demand a receivership and you would have no pity for him.

Well, that is exactly what France and Belgium were compelled to do at the beginning of the present year when they sent their troops into the Ruhr. Those troops went there to act as receivers, to collect from a stubborn and dishonest debtor, a just debt, a sacred debt. (Applause).

As I have the honor to speak this morning before men of business, before bankers, I take the liberty of presenting to you a few more figures. Of course, it is rather dry stuff, but I know that men of your standing and technical experience will excuse me. However, before I read these figures, I must remind you of a fact which you all know, that before the war, before 1914, France was one of the richest nations in the world. She had extraordinary savings, she was in a position to lend money to practically the whole world. You know that even in this country there were important French investments in your railways and many other enterprises.

We lent money to countries in South America, to Egypt, to Turkey, to Russia, to China, God knows where. There was hardly a big enterprise in the world without French capital being called upon to subscribe—and our people were then in a position to subscribe and they did subscribe.

The war broke out. Immediately, our first cash-resources were called upon. Then our securities, foreign securities notably, had to be pledged as a guarantee, then sold in order to carry on that terrible war. And there came a time when all our resources, cash-resources and securities, had been handed over as collateral or sold, still

to carry on that horrible war which lasted very much longer than any of us had anticipated at the beginning.

The loss of men which France sustained were 1,400,000 killed and 700,000 maimed for life, which meant a total loss of 2,100,000 young Frenchmen between the ages of 20 and 35, absolutely wiped out. That, out of a population of only 38,000,000 mind you! That loss was frightful. We mourn those young men, those heroic Frenchmen, and we know that for at least two generations we will miss them tremendously. It means practically two million men, out of a population one-third of yours, that are no more, who can't produce any more. Their loss means, without speaking of other considerations, a formidable decrease in the productive capacity of the nation, at least for the time being.

Besides that, having expended all our resources in carrying on the war for four and a half years, the end of the war naturally found us, instead of being a creditor-nation, a debtor-nation. We are proud of that situation, because it is thanks to those money sacrifices that we were able to keep on so long and that we contributed our share to our great common victory. So we have no reason of being ashamed of the fact that we are today a debtor-nation, and that we are experiencing just now the greatest difficulty in balancing our budgets.

This leads me to give you a few figures concerning France's present financial situation.

Our internal public debt at the beginning of 1923, amounted to 282 billion francs; our external debt to 35 billion francs. You see, after all, it is not so bad, as our external debt is only a slight proportion of our internal debt.

The statement of our budget for 1923 is as follows: expenses, 23 billion paper-francs; receipts, 19 billion paper-francs; deficit of the general budget: 4 billion paper-francs, to which will have to be added for 1923, because of Germany's failure to pay expenses (supposedly recoverable from her), 10 billion paper-francs. Therefore, the total deficit, including the deficit of the general budget, amounts to 14 billion paper-francs, which we have managed to elim-

inate in reducing certain expenditures—notwithstanding the fact that they were quite necessary—and by other means.

I come now to a certain explanation I must give you concerning the reconstruction of our devastated regions. Immediately after the Armistice—which was arranged for the sake of humanity in order not to carry on the bloodshed one day more than what was considered absolutely necessary—the French Government, although not altogether anticipating the difficulties it would meet in obtaining from Germany any speedy payment for the damages occasioned, set immediately to work on the reconstruction of these devastated regions which had to be put in order as soon as possible, so as to enable French industry and French agriculture to produce. We could not wait for the good-will of Germany in order to put those farms of our Northern and North Eastern Departments back into their former condition, to rebuild the factories, etc. So, the French Government put on the market successive internal loans, and also Treasury bonds, to an amount totalling 95 billions of francs at the end of 1922.

This amount covered two purposes: reconstruction of the devastated regions: 55 billions of francs; war pensions (which was also an item provided for in the Treaty of Versailles as having to be paid by Germany): 33 billions of francs, plus interest on the amounts borrowed for the preceding items: 7 billions of francs. Total 95 billions of francs.

That was a tremendous sacrifice for a country of only 38,000,000 inhabitants, which has suffered through the war to the extent France has suffered, not only in men but also in treasure.

And the French Government knew perfectly well at the end of last year, that that enormous sum of 95 billion francs which today has increased to about 110 billion francs, represented very nearly the maximum of the possible sacrifices (financial sacrifices) that a nation which had been temporarily so impoverished by the war could make and that it would be impossible to carry on much longer that

system of loans and subscriptions to Treasury bonds. That is why, when Mr. Bonar Law met Mr. Poincaré in Paris at the beginning of last January, our Prime Minister had to make our British friends understand that we had to do something, that we had to take coercible measures to compel Germany,—who had not suffered in her industries and her farms, all left intact by the war—to be honest, that we could not go on indefinitely being dragged from conference to parley and from parley to conference, to obtain nothing but void promises, either verbal or written. We had no guarantee of payment and we received almost nothing from Germany (who less and less realized that she had been beaten), except the scant sums which I have just given out to you. It could not go on like that, especially as, notwithstanding the fact that the French Government repeatedly made it known that it would never refuse to consider reasonable and “bona fide” proposals from the German Government, never received any such offers, so we had to find some practical means to make Germany come to her senses, to face the stern realities—hard realities, I will admit, but not so hard though, as the sacrifices she is responsible for and which we have made. That is the explanation of our going into the Ruhr. We went into the Ruhr because, for the financial reasons I just gave you, it was (in January last), the psychological moment to go in there. We chose that particular spot for another reason: namely because it is close to the zone occupied by the Allied Armies, so we could enter easily and without any serious resistance nor bloodshed. But the main reason was that the Ruhr, which has properly been called the “jugular vein of Germany”, is the center of the great German production of coal, coke and steel-manufactured goods of all kinds. It is the vital spot where those big industrial magnates like Stinnes, Thyssen, Krupp and others, made out of the war, during the war and since the war, tremendous fortunes, which are now abroad and which have never, at any moment since the Treaty of Versailles, been put at the disposal of the German Government to help the Reich pay the just reparations it is bound to pay, in order to compensate France and her Allies for the damages of the war.

We knew that by occupying that particular spot we would be in a position to exert a moral pressure upon those recalcitrant people, not only on the German Government, but particularly on the big magnates of the Ruhr, and that they would begin to think that in the long run, it would be more advantageous for them to begin being honest or acting as honest men, rather than continuing being dishonest and trying to defraud us indefinitely.

These are the explanations for our entering the Ruhr—to exert a moral pressure on the German Government and on the rich magnates of the Ruhr (I mean the heads of the big industries there); not for one moment, did we think of crushing the German working people; it is not upon them that we are exerting our action—we have, on the contrary, always treated them justly and even considerately and kindly.

Had Germany shown at any time, any sincere intention of paying, the French and Belgian troops would not have had to be sent into the Ruhr to help collect an acknowledged and just debt.

As a matter of fact, we have already seen some results of that occupation, I mean practical results: when the occupation started, one could hear certain people in several countries, especially in England and to a certain extent, here, say they could not see what practical results the occupation would bring. Mr. Bonar Law himself, notwithstanding his perfect courtesy and good faith, left Paris, telling Mr. Poincaré at the railway-station, that he was in full accord with us as to the justice of our cause and that he was in deep sympathy with us, notwithstanding the fact that he could not very well see what our then projected action would come to, what the practical results would be. His sympathies were nevertheless with us, although he disagreed with us on the methods of obtaining actual German payments.

Well, the occupation has been in effect now for five months, and we can see some practical results. I am not speaking only of the exports of coal and coke, which are increasing more and more regularly and which now reached the point where they almost cover the cost of our Army

of Occupation—that is only a detail; it is a small part of the results. In my humble opinion, the main practical result obtained from the occupation of the Ruhr is that the German Government and the more important German industrial magnates, notably those of the Ruhr who felt the pressure in a particularly direct manner are at least beginning to realize that in the long run they will gain more by paying honestly the reparation the Reich pledged itself to pay, than by continuing to evade just sanctions.

The German Government, in its very last note (I am referring to that of last week), notwithstanding the fact that its proposals are still absolutely unsatisfactory, admits for the first time explicitly that it must meet its obligations. That is one result. Besides, the former Allies of the war seem to be more and more united on the question of the reparations; they are now upholding the legitimate rights of France, and the points of view of all the interested parties on the methods of settling the question of reparations, are, it appears to me, getting nearer every day.

Then, Germany has at last understood that she will never succeed in separating the former Allies on the great question of principle, of right and of justice. We may have disagreed, we former Allies of the war, as to the methods, the best methods, the most practical methods, of obtaining payment from Germany, but it is to the honor of our former Allies and particularly of the great majority of the people of Great Britain and the United States of America, that they have always recognized the justice of our cause and that we always felt that we had at least their moral sympathy and support.

The fact that Germany recognizes that she will not separate us on that question of reparations, has, I think, contributed more than any other thing to open the eyes of the Germans, who during the last four years have continually played that card: trying to make France, Belgium, England, Italy and the United States, disagree on the question of reparations. It certainly was the best asset Germany thought she had in that diplomatic game, but now the game is up and our former enemies seem to be beginning to understand.

The occupation of the Ruhr, therefore, has, in my opinion, hastened considerably the solution of the grave problem of reparations, which is not only an economic problem but also a political one, a problem which has made its weight felt on the world's affairs, as well as on the financial and commercial activities of all of us and on the political intercourse between nations. That dark and threatening cloud is beginning to lift at last, thanks you will admit, to the firmness, moderation and clear-sightedness of the French Government's policy.

LIBRARY OF CONGRESS



0 020 916 309 3