CHAPTER IV

SEPTEMBER—NOVEMBER 1924

Effect in Berlin of Pact of London embodying the Dawes Plan—Position in Vienna in August 1914—Stresemann and Ramsay MacDonald——House of Commons debate—The Foreign Office and the Commercial Treaty—Romance of recovery of the mark—Drafting the Commercial Treaty.

BERLIN, *September* 8, 1924.—Since the Agreement was signed in London there has been a considerable diminution of tension here—not only financial but political. Both Germans and French have so far carried out their obligations under the Pact of London with fidelity and alacrity. The American and English representatives on the new control organisations say they have met with nothing but goodwill from the German financial departments. In the occupied area the French authorities appear to have behaved sensibly and to have put no obstruction in the way of handing over different services to the Germans "according to contract."

THE fly in the ointment is the question about War Guilt. Marx and Stresemann obtained Nationalist assent to the London Agreement by engaging themselves to make an official protest against the accusation that Germany alone was guilty of provoking the War. They had been pressed to make this during the London Conference, but wisely realised that any such action would have imperilled the chances of the Conference if it did not annihilate them. When they returned to Berlin they hoped to escape without any definite pledge, but in the end were compelled to give one. That is ten days ago, but the Note has not yet been sent. The Foreign Office has been wisely dilatory.

MALTZAN, who is here in sole charge of Foreign Affairs, fully realised the folly, or at least the inopportuneness, of raising the issue of War Guilt. He has gone so far

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in postponing positive action that he is rather alarmed he may have exceeded Stresemann's wishes. He came this morning to urge me, when Stresemann returned, to speak to him in the sense that postponement was not only justified but necessary. He would not have done this had he not been apprehensive.

THE truth of the matter is that Stresemann has always been himself rather a partisan of "denial." Apart from his personal opinion, he has recently patched up his differences with the Nationalist Party, and is anxious not to kill this new-born friendship. He will therefore be reluctant to do anything which looks like breaking a pledge given to his new allies.

STRESEMANN and Maltzan both manœuvre between the different political parties with some skill and with frequent reversal of position. A few months ago Stresemann was against the Nationalists and for the Left. Now he is the other way. Maltzan has pursued a precisely opposite course.

STRESEMANN's real support in the Ministry for Foreign Affairs is Schubert, whom he thinks more ballasted than Maltzan, and less liable to be carried away by enthusiasms, such as that for the Soviet, or to be deflected by personal relations with political parties.

BERLIN, *September* 11, 1924.—Since the Pact of London, the process of pacification is proceeding smoothly and rapidly. The French authorities in the occupied area appear to have turned over a new leaf, and to be acting with commendable rapidity as regards the release of prisoners, the withdrawal of troops from far-reaching points, the taking off of customs duties, and the withdrawal of Micum officials.

GERMAN officials at Berlin, particularly those charged with negotiations with the new organisations of control, are also acting wisely. Both Owen Young and McFadyean

are loud in their praises of the facilities afforded them. Owen Young told me the other day that if any difficulty arises, the Germans with whom he is negotiating go beyond their strict contractual obligation to remove it.

Outside official circles, there can be no doubt that strain, both in commerce and in finance, has diminished notably. The Leipzig fair last week came rather too soon to gain by this improvement. It was something of a failure, but I am convinced that if it had occurred a fortnight later quite a different story would have had to be told. There is no longer the extreme scarcity of money—firms no longer offer to pay 50 to 60 per cent. per annum for temporary advances. High rates are obtainable, but something more like 10 or 12 per cent. instead of the previous extreme figures.

One result of this improved atmosphere is that the Nationalist attempt to force the Government into making a declaration of denial regarding Germany's war guilt has not got much public support behind it. It looks as though the public generally would prefer the Government not to keep its pledge to the Nationalists—better break an internal promise than create an external crisis and imperil the smooth execution of the Pact of London.

Military Control began again on Monday, and has been carried on for four days without any disagreeable incident being reported. One never knows in this matter what to-morrow will bring, but I am told that the German Government's warning to the population to keep quiet has produced a considerable effect.

Commercial negotiations between Germany on the one side and France and Belgium on the other will commence almost immediately. France and Belgium will have an array of experts behind their negotiators, but more powerful than the negotiators will be the temptation to Germany to accept unfavourable commercial conditions in order to obtain an evacuation of the Ruhr earlier than August

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1925. It remains to be seen whether the bait will tempt the German Government. So far they declare that the two subjects are entirely disconnected, and that they would not think of considering a bargain between them. It would be disadvantageous and immoral.

BERLIN, *September* 11, 1924.—A leading journalist came to luncheon here yesterday to meet Jay of the Federal Reserve Board—the ideal "still small voice" American banker.

MUCH talk regarding the ex-Emperor. He was essentially an actor and was always posing before the public. Behind this outward show, a timid man—certainly peaceably inclined and rather a poor weak creature. The bold exterior had nothing bold behind it. It was therefore wrong to attribute the guilt of the war to the Emperor's deliberate intention. He might be responsible through weakness or through an ingrained habit of bluff, but not through any definite Machiavellian or Bismarckian scheme.

AT the time of the interview between the Emperor and the Tsar at Björko the Emperor succeeded in obtaining a personal agreement with the Tsar for co-operation between Germany and Russia with the deliberate intention of eventually bringing France into the alliance. This was William's pet idea at the time. Bülow realised that such a policy was impossible, since France and Germany were quarrelling about Tangier, and there were fundamental antipathies. He therefore offered his resignation. The Emperor wrote to him adjuring him not to resign. His appeal was almost piteous, for he went so far as to say that if "Bülow, his dearest friend, deserted him, he would commit suicide." He entreated Bülow to think of the poor Empress and his children.

THIS was one instance of his weakness and lack of dignity in a crisis.

ANOTHER instance was his visit to Tangier. It had been arranged for the local notabilities to meet him, and to bring a horse on which he should make a ceremonial entry into the town. But the Emperor was terribly frightened at the idea of riding a fiery Arab. So he telegraphed several times to Bülow to be sure to make arrangements that the horse should be quiet and incapable of any eccentricities.

WITH all this the Emperor's marginal notes on despatches frequently showed that he had a better political understanding than most of his ministers and agents. There were absurdities and extravagances and foolish insults among these notes, but there was also a good deal of political "flair."

MARX and Stresemann have got themselves into a great mess over the War Guilt question—they had no business to give any promise to the Nationals as to sending a formal Note on the subject to the Powers—now the only way out is for them to refuse to send the Note.

BERLIN, *September* 13, 1924.—A conversation with Dr. Dillon this morning regarding events preceding the declaration of war. He was then at Vienna and on intimate terms with the Austrian Foreign Minister, Berchtold.

ON the Thursday before war was declared the Austrian Foreign Minister told him that war appeared inevitable, and advised him to get out of the country as quickly as possible; the last international train would run the next day. On leaving the Foreign Ministry he saw the best-informed of the Ambassadors in Vienna, who said, "You will be doing the most foolish thing in your life if you leave. The negotiations will drag on for three weeks, and there is a good chance they will be successful. I got this information this morning from the Austrian Foreign Office." (This was obtained from a subordinate in the

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Foreign Office, not from the head.) Dillon then saw another Ambassador, who was no less optimistic than his colleague. He in his turn referred him to the Russian Ambassador, but Dillon said: "What is the use of my asking him, as when he read the Austrian ultimatum to Serbia he did not realise the gravity of the position and saw in it no reason to return from leave? From such a source there is nothing to be obtained."

Dillon then started for England. He was asked by the Austrian Foreign Minister to see Asquith and if possible to see the King, the idea being by all means to keep England out of the War. All Austrian Embassies, Legations and Consulates were instructed to send Dillon's cypher messages through at once. However, he arrived too late in England to do any good.

He attributes a large share of responsibility for the War to the Russian General Staff, not to the Tsar himself nor to Sazonoff. The latter he considered a man of tenth-rate ability, and he did not think much more of Iswolsky, who was his predecessor at the Ministry of Foreign Affairs and later Ambassador in Paris.

I asked Dillon what share of responsibility for the War he attributed to Iswolsky. Dillon said that in conversation with him, Iswolsky attributed the whole blame to Germany. When I asked him whether it was true that Iswolsky spoke of the War as "my war," Dillon said he had heard the story, but it was absolutely contrary to everything Iswolsky had said to him.

Berlin, *September* 14, 1924.—Stresemann is genuinely impressed by Ramsay MacDonald, especially by his power of silence and the absence of formality with which he has directed the proceedings of the London Conference. Stresemann had expected that, as in the Reichstag here, speakers in the Conference would have to notify their wish to speak to the President, who would call upon them.

He soon found that everybody else spoke when they felt inclined, so he did the same.

MacDonald's capacity for silence was remarkable. On the Wednesday, when the Conference went through its crisis, and when the whole negotiations looked like breaking down, Stresemann went to MacDonald and told him of the critical position of negotiations between the French and German delegates concerning the evacuation of the Ruhr. When Stresemann had ended, MacDonald said nothing for five minutes. Then he merely interjected—"Something has happened since Monday."

The great difficulty in the Conference was the question of the evacuation of the Ruhr. At the June meeting at Chequers an agreement was come to between MacDonald and Herriot which the latter understood to mean that the question of evacuation would not be raised at the London Conference. MacDonald had really meant that it should not be raised in the official proceedings of the Conference —not that it should not be discussed in London. Towards the close of the first phase of the Conference in July he came to Herriot in an affectionate way, patted him on the shoulder and said: "The Germans cannot accept a settlement without previously discussing the question of the evacuation of the Ruhr. We cannot take part in the discussion, but you must settle with the Germans." Herriot protested violently, said he had been deceived, said that on the basis of the Chequers discussion he had made statements in the Chamber that the Ruhr evacuation would not be mentioned in London. However, he eventually quieted down and discussed it.

Stresemann thinks highly of Hankey and his calm outlook. On the Wednesday of crisis, when everything looked black, Hankey had said to him: "All Conferences—and I have seen a good many—go through a critical period. This is quite a mild crisis. Everything is going well. The troubles we have had since the German delegates arrived

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are nothing compared with what we had between the Allies before you came—then we had a crisis twice a day." SNOWDEN had been a curious, incomprehensible figure at the Conference. Stresemann could not make out what his relations were with MacDonald. He had been more German than the Germans. Once when he, Snowden, had signified a wish to speak and the Chairman had not noticed it, Theunis leaned over to MacDonald and said: "The member for Germany wishes to address the meeting." INTERPRETATION had been a great difficulty. Marx, on one of the first days, had made some mild request, whereupon the German interpreter said, "The Chancellor *demands* that . . ." and bellowed it out in such aggressive tones that it sounded like an ultimatum. Someone had said (Stresemann declared it was not himself), "The translator transforms a lamb into a tiger."

DISCUSSING recent history, Stresemann said the French had been absolutely insane since the Armistice. At that time there was no real enmity against them in Germany. Now it was bitter and intense. The circulation of the *Vossische Zeitung*—which was considered pro-French—had suffered on this account. The *Frankfurter Zeitung* had also gone down. It was too pacifist and too much for reconciliation all round. The German public recognise the necessity of coming to an agreement with the Western Powers, but they had no inner liking for general reconciliation as a *Weltanschauung*.

HE thought that Germany would endeavour to carry out the Dawes report honourably.

IT was foolish for France to trust to the Polish alliance. Supporting Poland meant the inevitable hostility of Russia, and Russia was bound to come back some day or another. This love for Poland had been the real cause of Napoleon's downfall. His support of Polish aspirations was the ultimate cause of the Tsar's hostility, and this led to his catastrophe. The same thing would happen again.

STRESEMANN thinks the Soviet are on their last legs financially, and he fears that they will attack Bessarabia to distract public attention in Russia from their internal policy. That was how war would come about—somewhere in the East, not a direct conflict between Russia and France.

HE declared that Hungary, Bulgaria and other Eastern European countries were arming feverishly—that Hungary was armed to the teeth. Switzerland, which had been in a very bad financial position, was rapidly recovering through profits made on armaments. I have no confirmation of this view from other quarters. It deserves examination.

STRESEMANN considered that it was essential for the Rhineland to be frankly part of Germany, also for Danzig to be reincorporated. Without this there could be no permanent peace.

I PUT forward my view of the reciprocal iron curtain or strip of inviolable territory as a protection. Stresemann said, "Germany will accept your plan, but I don't think the French will."

HE seemed to have no special hostility to the Czechs, and expressed a very high opinion of the late Czech Minister in Berlin—Tusar. But he had been startled by the unambiguous language of a very spontaneous official lady here; one of the first things she said to him was: "Is it true that all Prime Ministers are impotent? A friend of mine who was Prime Minister in a neighbouring country for more than a year declares it is an invariable rule."

BERLIN, *September* 16, 1924.—A delightful instance of the Semitic genius as applied to business.

IN an exclusive seaside resort on the Baltic, where wealth is scorned and anything of Jewish origin is rejected, an hotel manager was asked how he succeeded in keeping the company at his resort so select. He replied: "The matter is quite simple; if we find they are too commercial, we arrange that the telephone should always be occupied,

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and, without the telephone, the commercial man cannot live. Moreover, we occasionally lose their boots in the morning."

BERLIN, *September* 22, 1924.—An address by me to-day to the members of the German-English Delegation who have met here for the purpose of drafting a new Treaty of Commerce between the two countries.[1] I am more than ever convinced that if Free Trade is the right ideal, which it surely is, its failure to convince the world is largely due to bad negotiation. We in England appear to have missed completely the essential point that, as the largest buyers, we have immense world influence; by neglecting to use our influence in negotiation, we have allowed tariffs throughout the world to grow continuously. If we had been less austere in avoiding all resort to retaliation or to menace of retaliation, trade relations between different countries of the world would be far better to-day than they actually are. Neither the orthodox free-traders nor the orthodox protectionists appear to have realised the vast possibilities for Great Britain and the British Empire of a system based frankly on exacting reciprocity.

LONDON, *October* 7, 1924.—Luncheon with Lord and Lady Curzon, meeting Sir Charles Mendl, the recently knighted Press attaché to the Embassy in Paris. He had just returned from Venice, which, he said, had lost its principal attraction since H. left. He intended to seek the sun elsewhere another year.

CURZON was very anxious to hear what I thought of Ramsay MacDonald, and was, I thought, slightly disappointed when I said he was extraordinarily intelligent, rather sly, and had a marked rapidity of judgment in foreign affairs.

LADY CURZON, who has begun to own racehorses, was

[1] SEE Appendix I.

much interested about the sale of a yearling of mine, Amilcar, for about £10,000. Londonderry, who was there, said these high prices were disastrous to the best interests of the Turf—though why he did not explain. In his view the Aga Khan was like the Joker in a pack of cards and outbid everybody, but he forgot to say that while the Joker defeats opponents, the Aga Khan's purchases are of benefit to owners of racing stock and to breeders in general.

They have not been unprofitable to the Aga. I was down at Dawson's training stable two days ago, and learned from him that the Aga Khan's operations on the Turf had led to the following result: the stakes he had won had paid for the cost of the horses, so that he owned some of the best animals in the world gratis. He had sent five mares to Ireland yesterday, and these mares were worth anything between £60,000 and £100,000, so his position is not unenviable. £60,000 was offered last year for "Muntaz Mahal," and "Cos" was worth at least £15,000. Besides these mares he had his horses in training, and he had two stallions—"Diophon" and "Salmon Trout"—each of which was worth from £15,000 to £20,000; so that if the stakes won paid for the purchase and training, his net gain was well over £100,000. As far as purchases from me are concerned, he has bought "Cos," "Diophon," "Tiara" and "Nevsky Prospect" for less than £15,000. They have won nearly £30,000 in stakes, and are certainly worth another £30,000.

London, *October* 9, 1924.—Listened to the debate last night, hearing all the speakers before dinner, except Horne.

The Attorney-General, Sir Patrick Hastings, gave an impression of sincerity. Nothing of the Old Bailey or of the bullying Counsel: his manner is rather gentle and intelligent. Simon I thought, for once, decidedly inferior,

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although the Press to-day praises his speech. The Prime Minister was dignified and impressive. He is, perhaps, somewhat in love with himself, and too much inclined towards self-pity, but the performance—especially as he was suffering from toothache—was remarkable.

Asquith was much applauded, not least by the Labour members. Their applause was too spontaneous to be consistent with fear. Asquith was humorous and light, and particularly careful to leave the door open for a compromise; no great earnestness about his speech—no indication of strength of conviction or of purpose. However, the House as a whole thought the speech a brilliant success.

I dined afterwards with Kenworthy, meeting Drinkwater —the actor-playwright-poet. He makes rather a fine impression, but more that of an actor than a poet. The whole afternoon he had been trying to get into the House of Commons, and was chagrined to hear what a good debate he had missed.

Kenworthy was preoccupied by the probable rejection of the Russian Treaty. He thought rejection would be an act of folly. He talks of Russia's 150 million population increasing at the rate of 2 millions a year, and declares that there can be no European peace until we have discovered means of coming to terms with them.

Both Kenworthy and Godfrey Collins (who are by way of being knowledgeable members of the House) thought at 9 p.m. that a General Election was out of the question, and that some compromise would certainly be found between the parties. They said a great many Conservative members would not vote against the Government, as they considered the Government to be more or less in the right. By midnight, these prognostications proved erroneous. The Government did not accept Asquith's offer and resigned next day.

Was the episode an adequate reason for a General

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EDOUARD HERRIOT

Election? Is there not too much make-belief about the attack? Of course Attorney-Generals consult Prime Ministers about criminal proceedings of a political nature, and of course Prime Ministers are affected by the attitude of their followers on the political question raised. Why then pretend that something heinous has been committed?

THE contrast between a debate in the House of Commons and a debate in the Reichstag is very marked. The former is conversational, argumentative, humorous. The latter is platform speaking, disturbed, and often relieved by interruptions. Members frequently complain that the House of Commons ought to be larger, that there should be a seat for each member—and I suppose a desk for each, but the whole spirit and temper of debate is produced by the relatively small space, members being close to one another and within easy hearing distance, also by their being ranged on two sides instead of in a semi-circle dominated by a rostrum. English speakers endeavour to make their arguments sound, plausible, common-sense. They eschew fine phrases and declamation.

LAST night, although probably all parties were rather foolish, and although the opposition case was very much trumped up, the speeches on both sides sounded sensible and persuasive, and one could understand an impartial hearer being convinced either way. In the House of Commons the difficulty is to decide which side to vote against: in Germany it is often a difficulty to know which side to vote for.

THE COMMERCIAL TREATY

ARTICLES 264 and 269 of the Versailles Treaty prohibited for a period of five years any discrimination being made by Germany against the commerce of the Allied Powers. These clauses expired in January 1925. Already, in August 1924, during the holding of the Dawes Conference in London, the French Prime Minister—M. Herriot—and the French Minister of Commerce, M. Clémentel, had sought to secure

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from the German Delegation exceptionally favourable terms for a Franco-German Treaty of Commerce. To this end the occupation and evacuation of the Ruhr were utilised as a political bargaining factor. Negotiations were, however, unsuccessful, but both France and Belgium proceeded to strengthen the commercial elements of their diplomatic staffs in Berlin.

Lord D'Abernon, being concerned lest France and Belgium should steal a march on Great Britain in respect of the conclusion of a favourable Treaty of Commerce with Germany, urged upon the British Government the necessity of immediate action in the same direction. Accordingly, early in September, the Board of Trade transmitted to the British Embassy in Berlin its own notions of a draft Commercial Treaty with Germany. After a careful examination of this draft, the decision was reached that it was of too general a character to meet the requirements of British trade with Germany. It contained nothing more effective than the usual "most-favoured-nation treatment" clause. Such a clause, Lord D'Abernon pointed out, would be of little benefit to British exporters, because the Treaties recently concluded by Germany with other countries showed a very high degree of specialisation in respect of the clauses connected with customs duties. These minute and technical classifications entailed facilities applicable only to a strictly limited category of British exports to Germany. The great bulk of British exports to Germany were articles peculiar to Great Britain. Lord D'Abernon, therefore, emphasised the need —in order to secure a real reciprocity between Great Britain and Germany—of giving to the suggested "most-favoured-nation treatment" clauses an interpretation at once wider and more precise than had hitherto been customary or obtainable. He insisted on full recognition and appreciation being shown by Germany of the benefits which her exporters found in the Free Trade markets of Great Britain. His advice under the above heads was duly considered and adopted by Mr. Ramsay MacDonald and the Labour Government, who agreed that two essential features of the proposed Treaty of Commerce should be the removal of import restrictions and such a reduction by Germany of her Customs duties on British imports as would render access to German markets possible.

Lord D'Abernon was authorised to open up negotiations with the German Government on the lines advocated by himself. Accordingly, on September 22, 1924, he delivered an inaugural address at the joint meeting of the British and German delegates. (*See* Appendix I.)

AFTER an interval of nearly a month, the Ambassador, on October 28, forwarded a further Note to the German Secretary of State on the proposed Treaty of Commerce. Meanwhile, a draft final protocol to be annexed to the Treaty had been prepared.

DURING the final stage of the Anglo-German negotiations, the Labour Government was overturned in England, and, with the advent of the Conservative Government, Mr. Austen Chamberlain became Foreign Secretary and Sir Philip Cunliffe-Lister President of the Board of Trade. They at once sanctioned the continuance of the negotiations with Germany for the Commercial Treaty, despite the Free Trade principle emphasised on the British side.

THE Treaty was signed on December 2, 1924, and was held by the British Press, regardless of party, to constitute, from a British standpoint, a remarkable advance. The following extracts from the final protocol are an indication of the spirit and principles which pervaded the negotiations:

(1) "THE Treaty of Commerce and Navigation signed this day being based on the principle of the most favoured nation, *both parties to the treaty undertake to give the widest possible interpretation to that principle.* In particular, while retaining their right to take appropriate measures to preserve their own industries, they undertake to abstain from using their respective customs tariffs or any other charges as a means of discrimination against the trade of the other, and to give sympathetic consideration to any cases that may be brought to their notice in which, whether as a result of the rates of customs duties or charges themselves or of arbitrary or unreasonable customs classification, any such discrimination can be shown to have arisen.

(2) "WITHIN the limits of this undertaking each party agrees not to impose, reimpose or prolong any duties or charges which are specially injurious to the other party. Each party further agrees, when modifying its existing customs tariff and fixing future rates of customs duty as far as they specially affect the interests of the other party, to have due regard to reciprocity and to the development on fair and equitable terms of the commerce of the two countries, *the German Government taking into full account the favourable treatment at present accorded to goods the produce or manufacture of Germany on importation into the United Kingdom.* The parties will also have regard to the same considerations in applying any special prohibitions or restrictions which may be notified under Article 3 of this Protocol."

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LONDON, *October* 21, 1924.—Had several talks at the Foreign Office regarding the Commercial Treaty which is now being negotiated.

I PRESS most strongly the desirability of obtaining from the German Government assurances more precise and more far-reaching than the ordinary most-favoured-nation clause. If we have only this clause we are exposed to very disagreeable treatment for our merchandise through special classifications, arranged to suit others who are more diligent negotiators. I put my view forward strongly that England, giving liberal treatment and a low tariff to Germany, was entitled not only to equal treatment with France and America, who put on high tariffs, but to very special consideration. This could probably be given without infringing the most-favoured-nation clause, and we are fully entitled to demand it.

BERLIN, *November* 4, 1924.—The essential cause of the wonderful recovery of German finance which has taken place during the last year has been the stabilisation of the currency. THE story of how this stabilisation was brought about, after the mark had depreciated to one-billionth of its value, is almost a romance.

As far back as 1921 I persistently pressed upon the German Government the necessity of stopping the issues of paper money and of creating a stable currency. The political leaders—Wirth, Cuno, Rosenberg and Maltzan—all pleaded complete ignorance of the subject; said that their financial advisers, including all the bankers in Berlin—not omitting Havenstein, the President of the Reichsbank, and Rathenau and Stinnes—unanimously declared that any cessation of note printing was impossible. They contended that the continuous and rapid fall in exchange was produced by quite other causes, the usual view being that it resulted from an unfavourable balance of trade. This was the Rathenau view.

THE only Germans who paid any attention to my opinion on the subject were Stein of the *Vossische Zeitung*, and a friend of his, Ritscher, one of the Directors of the Dresdner Bank; Georg Bernhard, the Editor of the *Vossische Zeitung*, a man of great authority, was also somewhat impressed (more by my vehemence than by my arguments), and became half convinced that currency reform was indispensable to financial restoration.

AFTER a vast deal of advice and pressure, I persuaded the Government, in October 1922, to call to Berlin a Commission of Currency Experts in order to advise on the position. This resulted in the arrival here of Professor Cassel of Stockholm, Professor Keynes, the Honourable R. H. Brand, Professor Jenks, M. Dubois, and Dr. Vissering. These gentlemen arrived in October 1922. Unfortunately their visit coincided with a visit of the Reparation Commission, including Barthou, the President, and Sir John Bradbury. The consequence was that very little attention was paid to the Currency Commissioners, all the brains of the German financial departments being absorbed in answering the questions of the Reparation Commission. To such an extent were the Currency Commissioners ignored that they were hardly asked to dinner, lest it should offend the Reparation Commission, and when they presented their two reports, one of which (the majority report) was a monument of wisdom and the corner-stone of all subsequent reform, the Government paid no attention.

To show the condition of German opinion at the time, it is sufficient to say that when the currency reports were presented to the German Government they did not even send them to the Reparation Commission. So little did they realise their value that they put them away in a pigeon-hole and sent to the Reparation Commission a quite minor report on a quite minor subject (some banking detail) which they had obtained from Dr. Vissering and

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M. Dubois. Only with the utmost difficulty did I induce Wirth to rescue from oblivion some of the most important recommendations made by Cassel and Keynes. These were subsequently sent on to Paris after the Reparation Commission, more to please me than because anybody had the smallest inkling of their value. They were forwarded as a kind of Postscriptum, without major importance. And everyone abstained carefully from endorsing them.

Up to the beginning of 1923, therefore, there had been no progress in the mind of the Government towards currency reform. Havenstein was still alive and in full control of the Reichsbank. His view on currency management and on note issues was exemplified in a speech before the Reichsrat on August 7, 1923, in which he said: "The Reichsbank issues 20 billions of new money daily. Next week the bank will have increased this to 46 billions daily. The total note issue at present amounts to 63 billions: in a few days we shall, therefore, be able to issue in one day two-thirds of the total circulation."

I continued to represent, in private conversation, that Havenstein was a public danger, and would, in any State which had sound views about currency, be handed over to the common hangman. But no one believed that so respectable a man, who was supported by the entire banking community of Berlin, could possibly be wrong on a special subject within his particular competence.

So strongly was this view held that it is probable no currency reform would ever have been brought about had not Providence intervened.

Intervention took an extreme form, for within a few months Havenstein died.

Stinnes, who had been a great supporter of his views, also died.

Helfferich, the arch-priest of inflation, was killed in a railway accident coming from Italy; and Poincaré, whose pressure on Germany had made inflation difficult to avoid,

fell from power. Poincaré's bullying for immediate payment, irrespective of the effect on Germany's currency, was, economically speaking, sheer folly.

When the post of President of the Reichsbank became vacant through Havenstein's death, opinion in German banking circles was almost unanimously in favour of Helfferich, who would have continued, and perhaps aggravated, the Havenstein policy. The majority of the Council of Ministers were also in favour of Helfferich.

Happily Stresemann, who has a very energetic will and great authority with his colleagues, had been won over to sound views, and realised that a radical alteration of the Reichsbank policy was essential. Stresemann had indeed made up his mind—or more correctly had been persuaded—to dismiss Havenstein five or six months before his death, but he had always been prevented from carrying out this decision by opposition in the Cabinet and opposition from the bankers. However, when death intervened and there was no longer a question of having to dismiss an elder statesman, but merely that of filling a vacant post, he realised that a change of policy and spirit was essential. Stresemann was sick in bed at the time, but he wrote such a violent letter to the Cabinet—a letter against Helfferich and in favour of Schacht—that, against their own judgment and their own wishes, the Cabinet appointed Schacht.

The selection turned out to be an admirable one. Schacht, by sheer force of ability and courage, carried through all the necessary measures to restore stability to the currency. He had to face extreme unpopularity and violent protests against the restriction on currency issues, which made money terribly scarce and dear during the transition period. However, he rightly regarded temporary stringency as inevitable. It was only six months after his appointment, when the public began to realise the immense advantage of stability, that opposition to his severe administration began to die down. Schacht had been most loyally sup-

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ported by Stresemann and by the Finance Minister, Luther. The latter's measures to increase the revenue have played an important part in recovery.

BERLIN, *November* 7, 1924.—Busy to-day drafting report to London on the proposed Commercial Treaty and on the Protocol which accompanies it. (*See* Appendix II.) I have made it clear that the fullest reserves have been made by the British negotiators with regard to acceptance by the new Government, and I have frequently told the Germans that I am by no means assured what kind of reception will be given to the basis which has been prepared. From the English point of view the concessions we have obtained are of extreme value. They open an era of considerable commercial development, not only between England and Germany, but with the nations of Central Europe, for there can be little doubt that the precedent once set of recognising the claim of England to special treatment, the example will be followed. My thesis throughout has been that a large importing country like England, which gives free trade conditions, is entitled thereby to better treatment than a protectionist country. The usual foreign contention, expressed or implied, is that, bound by our theories, we are powerless to retaliate, so we can be worse treated than those who can retaliate. My personal belief has always been that the vastness of our imports gives us exceptional power to exercise retaliation, and that we are justified in using it if requisite. We could use it effectively—not perhaps a very orthodox free trade doctrine, but a sound practical one. Free trade treaties have never been negotiated with sufficient vigour.