

CHAPTER V

NOVEMBER 1924—JANUARY 1925

Chamberlain on the Commercial Treaty—Luncheon with Winston Churchill, the new Chancellor of the Exchequer—Signature of Commercial Treaty: Views of English Press—Germany's future Government—von Schubert on Security—Controversy over military disarmament—Formation of Germany's new Government—Important German Note on Non-Aggression.

THE General Election of October 1924 returned an overwhelming Conservative majority in the House of Commons. Mr. Baldwin, on being entrusted by the King with the formation of the Government, reappointed Lord Curzon as the Conservative leader in the House of Lords, but disregarded his claims to resumption of the Foreign Secretaryship in favour of Mr. Austen Chamberlain.

BERLIN, *November 10, 1924.*—I am much gratified to hear from Chamberlain that the Conservative Government does not propose to stop the discussion of the new Commercial Treaty with Germany. The draft we have prepared is candidly free trade, but it puts free trade on a negotiating basis, which gives England a chance of obtaining some return for a liberal fiscal policy. Yet I was afraid that the Protectionist section behind the Government would regard it as anathema. Chamberlain has certainly shown himself broad-minded in this matter.

CHAP.
V
November
1924

BERLIN, *November 14, 1924.*—Negotiations for a commercial agreement with England have taken a favourable turn. At first the German experts were unwilling to recognise that any reciprocity was due to England for her treatment of foreign goods. They declined to consider a proposal that our goods should be treated in Germany as theirs were treated in England. Their main argument was that since we were prohibited by theoretical conceptions from retaliating, no special consideration could or should

CHAP.
V
November
1924

be accorded us by self-respecting and intelligent foreign negotiators. Happily, the experts have been overruled by the political heads of the Wilhelmstrasse.

IN the Protocol attached to the draft Commercial Treaty, it is laid down specifically that the new German tariff will be drawn up on a basis of reciprocity. I believe this is the first time that such a declaration has been inserted in a commercial treaty. Foreign negotiators have held that England was not entitled to counter-concession, since her own attitude on Free Trade was adopted in self-interest. Personally I have always held that we could obtain better treatment if we fought for it. We have valid arguments and valid means of pressure. English goodwill in commerce and entry into the English market are of such value to a foreign nation that with skilful negotiation considerable return could be obtained for it. I have taken this line when talking to the German negotiators. It was somewhat difficult to reply to their argument that similar claims for England have never been made before.

APART from these commercial negotiations, the position is satisfactory. Pacification has proceeded apace since the signature of the London agreement. Prisoners on both sides have been amnestied and released, commerce is returning to a more normal basis, and anxiety regarding a financial catastrophe has given place to confidence. Compared with a year ago, the advance towards peaceable conditions is gratifying.

BERLIN, *November 14, 1924.*—I have been looking through my notes on the stabilisation of the currency in Germany, and feel bound to add to what I wrote on November 4, that many good judges consider that the whole inflation policy followed from 1920 to 1923 was a device of astute Teutons to avoid the payment of Reparation, and a signal instance of financial Machiavellism. I take leave to doubt the truth of this supposition.

FROM the first I held that no financial recovery was possible, and that no settlement of Reparation was possible without stabilisation. In the early period only two bankers in Berlin, of those that I knew, were receptive of new ideas on the subject, namely, Schacht and Ritscher. I met these gentlemen on several occasions at Stein's. I also discussed with them and with Georg Bernhard (the Editor of the *Vossische Zeitung*) the best method of getting the German Government to stabilise the currency. We decided that the only effective plan would be to bring over foreign currency experts, and I suggested the name of Cassel—an old friend of mine—and of Keynes, of whose ability I have the highest opinion.

WIRTH, who was at that time in power, did not much like the idea of looking abroad for guidance upon this internal question. He was told by opponents of the reform that Cassel and Keynes were both men of extreme theoretical views and quite indifferent to what anybody else thought on their own subject. He therefore watered them down by adding to their number Vissering, whom he hoped to use as a tame elephant, as well as Dubois, a French-Swiss banker of respectable reputation. Brand was added, I think, on the suggestion of Professor Bonn, and proved a most valuable acquisition.

THE Reparation Commission, with the exception perhaps of Bradbury, did not at all like the idea of Germany calling in expert foreign advice on a financial matter. They considered this an invasion of their domain, and foresaw, quite correctly, that independent experts would probably give different advice from their own.

LONDON, *November 23, 1924.*—A long interview with Austen Chamberlain, the new Secretary of State for Foreign Affairs, on Thursday.

I FOUND him strongly in favour of the Commercial Treaty with Germany, although a narrower man with his strong

CHAP.
V
November
1924

protectionist tradition might have seen in it an objectionable tendency. He said: "While I am a Protectionist and you are a Free Trader, I hope we are neither of us so fanatical as not to realise the great advantage which can be obtained from a judicious mixture."

It is not only rare that a Minister reads despatches and telegrams with such care, but it is almost alarming that so much has been noted and remembered.

LONDON, *November 24, 1924.*—Motored yesterday to the neighbourhood of Sevenoaks, and had luncheon with Winston Churchill, the new Chancellor of the Exchequer. WINSTON is very resolute about maintaining the 26 per cent. Reparation levy, saying he must have the money and could not do without it.¹ Apart from this, he realises the great advantages of the proposed Commercial Treaty with Germany.

HE takes points with the quickness of youth, and scents any opening for oratory like a terrier after a rat.

CHURCHILL was dressed in a workman's suit of overalls: in this he passes the day, dividing the time between digging in the garden, constructing an artificial lake in front of his house, and dictating memoirs of his early life.

I TALKED to him about drink control and drink revenue, pointing out that he had a great opportunity if he would advance money for the more rapid extinction of bad houses. This would be a social reform, and would give increased stability to the drink revenue. But like everyone else on this subject Winston showed no interest whatever. It appears impossible to stir even the most lively intelligence about drink, and yet it is the only case I know of where a great social reform has been carried through, not only at no cost, but with a gain to the revenue of £100,000,000

¹ LATER on Churchill saved the situation about the 26 per cent. levy by an eloquent interview with the German delegates. They were quite carried away by the combination of his broad outlook with his fervent rhetoric.

a year. Moreover, the methods discovered of controlling drunkenness and reducing alcoholic disease are not only effective in their present form, but are capable of almost indefinite tightening up in case of national emergency. That with such remedies available and fully tried out the United States should blunder into Prohibition, involving the vast illegality which has resulted from it, shows how little the experience of one nation can benefit another. It is difficult enough to learn from one's own experience. It also shows what bad self-advertisers we are. Having discovered the solution of an almost universal world problem we do not realise the fact, still less do we advertise it or claim a Nobel Prize.

LONDON, *December 2, 1924.*—The Commercial Treaty was signed to-day, and will come into force immediately after ratification. There does not appear much doubt about its acceptance in the Reichstag.

LONDON, *December 7, 1924.*—All the papers are favourable to the Anglo-German Commercial Treaty. They rightly regard it as a step towards the return of Europe to normal conditions, and to the blotting out of war mentality, while they welcome the advantage to trade which is offered. But practically all the comments miss the essential point: that which constitutes the novelty of the treaty, namely, the engagement by Germany to recognise, by reciprocal treatment of English goods in Germany, the advantage offered by England through her free trade policy and her low tariffs. Whether the omission to note this essential point is due to blindness and carelessness, or whether it is due to a desire not to say anything which might seem to flatter Free Trade at the expense of Protection, I cannot say. The latter difficulty might be easily overcome by saying that the important concession obtained from Germany is due to a free trade conception having been

CHAP.
V
—
December
1924

realised through a retaliatory or even protectionist menace, i.e. the present Government, who are admittedly inclined to protection, might say that it was fear of their resolute retaliatory policy which induced Germany to grant reciprocity for free trade—a condition never made to a pure free trade Government.

WHETHER this was the real motive behind the German attitude may be doubtful. Personally, I think fear of high duties in England was only a small proportion of the motives which prompted them, others being the fear that English capital and financial facilities would only be available if a Commercial Treaty was made on lines fair to English commerce—fear of a less friendly political attitude—desire to get rid of the penal clauses against Germany.

WHATEVER the causes, there is every justification for claiming that a similar line of argument to that adopted in the case of Germany would be successful in the case of other countries. England could say: "Germany has agreed to recognise the advantage of the English free trade system and will give reciprocity. Can you—an old ally and not an ex-enemy—behave less well than Germany? With her we have obtained an extremely precise and extended most-favoured-nation clause—can you give us less?"

So far for the equities of the case. Behind this would be not the menace, but the fact that England can hardly maintain extremely cordial relations with, or offer financial facilities to, any country that does not give her fair reciprocity for the advantages which the English system offers.

ALONG these lines I am convinced that in a year or two a marked amelioration of the conditions under which English trade enters foreign countries could be attained.

EVEN in the case of pending negotiations regarding the debt of France to us and our debt to America, a strong argument could be founded on the German treaty, saying that it is inconceivable that France, or America, can contemplate treating England on any basis worse than that

on which Germany is bound to treat us, and has agreed to treat us.

BERLIN, *December 28, 1924.*—The internal political situation remains obscure. No one knows what Government it will be possible to form next month. No combination seems able to count on a stable majority. Marx and Stresemann, who have achieved great things together, the one as Chancellor and the other as Foreign Minister, are on less good terms than they were three months ago. Stresemann, for some unknown reason, unexpectedly bifurcated to the Right during the elections, and insists now on the necessity of bringing the Right in as a component part of the new Government. Marx, who is a very honest man, but not Stresemann's equal in ability and adroitness, refuses to lend himself to any coalition with the Right.

A LONG talk last night with Maltzan, ex-Secretary of State, who has been appointed Ambassador to Washington. He could not give any clear reason why Stresemann had gone so much to the Right.

EVERYONE is more or less agreed that Stresemann should remain Foreign Minister—not that they have such great confidence in him or affection for him, but that there is nobody else. Personally, I rate his skill and his services much more highly than the public do.

MALTZAN says that he himself was sounded by Ebert as to whether he would become Minister for Foreign Affairs, but he declined any overture of this nature on the ground that he is very tired by his work as Secretary of State and requires for two or three years the comparative repose of a foreign post.

MALTZAN discussed the relations of Germany with Russia. In his view the necessity for Germany to rely on Russia was to-day considerably less than at time of the Treaty of Rapallo. No country could stand alone—the only possible

CHAP.
V
December
1924

support at that moment was Russia. That was why the Rapallo Treaty had been signed, and why it was justified. In his view it had led to the Dawes report: personally, I think this paternity somewhat doubtful.

MALTZAN went on to say: "To-day England and America both take an interest in Germany. The American material interest here is a considerable factor. We feel that we are no longer isolated as we were—therefore we need the Russians much less than we did.¹ We shall maintain friendly relations with them, but nothing of an intimate character. Moreover, the Russian Army has deteriorated considerably. I doubt if it would be of much good even against Poland, but it is strong enough to maintain the present régime at Moscow, and to this régime it remains loyal. I anticipate no big change in Russia, but a gradual evolution. The present leaders are fanatical enthusiasts—all more or less mad. The next generation will be less mad, but they will remain communistic."

DISCUSSING the fear which exists in Paris that there will be a military alliance between Germany and Russia, Maltzan said no apprehension need be felt. He had discussed the matter quite calmly with the French Ambassador, and told him that both France and Germany must keep their heads and not allow the Russians to jockey either of them into an alliance with Russia through fear of the other.

BERLIN, *January 12, 1925*.—This question of disarmament becomes more and more complicated. Personally, I have no doubt whatever that any danger from German military

¹ NOTE OF *November 1925*

LATER private information is to the effect that Maltzan did not want Washington, but that Stresemann did not want Maltzan, at least not as Secretary of State in Berlin. He thought him too Russian, and feared that the L. of N. policy—and the Pact policy—would be impossible if Maltzan remained in the Wilhelmstrasse as a high official.

organisations has long since ceased to exist. I have reported this home time after time, and it has probably appeared in previous pages of my Diary, but I now learn that in the circle of the General Staff in London a grave view of the situation is taken; they harass the Home Government with the most serious warnings. So much is this the case that the whole matter may be referred to the Committee of Imperial Defence. I am convinced that any impartial man taking a broad view of the question would share my opinion and not that of the General Staff in London.

BERLIN, *January 14, 1925.*—To-day I discussed the question of SECURITY with Schubert.

HE appears inclined to formulate some proposal along the Cuno lines, eliminating from that proposal the words regarding a plebiscite, and adding to it an engagement that all questions which cannot be arranged diplomatically between the Powers signing the Pact should be submitted to arbitration, either to The Hague Tribunal or to some other tribunal.¹

SCHUBERT was prepared to enter into an engagement to respect the territorial possessions of all countries interested in the Rhine, but declined to do this as regards the Polish frontier. I pointed out that it might create a bad impression if Germany specifically excluded the Polish frontier from such a guarantee.

THE basis of the German position is that they are ready to go very far in accepting non-aggression and pacification pacts, provided that the engagement is fully and frankly reciprocal.

¹ THE above conversation was held six days before the Note of January 20 to London, which was practically identical with the Note to Paris of February 9. Schubert and Lord D'Abernon often talked of the Pact of Security as "Das Kind," regarding it more or less as a joint production, and watching over its early life with quasi-parental care.

CHAP.
V
January
1925

BERLIN, *January 15, 1925.*—The controversy about military disarmament is still with us. As disarmament is admitted by all competent authorities to have been carried out to at least 95 per cent., it is foolish for the Germans to haggle and procrastinate about the remaining 5 per cent., which cannot possibly be of any military effectiveness. No military action could be contemplated on such a basis. Why then not complete the whole policy and get the credit for it? The authorities in the Wilhelmstrasse, I believe, recognise the truth of the above view, but they find it difficult to get military officers to carry this conception to its logical conclusion. Considerations of dignity and military honour come in.

IN this question as in others the necessity of a *quid pro quo* makes itself felt. The German mind is particularly sensitive on this point and in doubt whether execution of disagreeable obligations on their part will bring about a fair return. The fundamental cause of the resentment against the non-evacuation of Cologne was suspicion; an unreasoned conviction that this was the beginning of a policy of non-fulfilment by the Allies which would result in delay in evacuation of the Ruhr on August 15, and in the subsequent evacuation of the Coblenz and Mainz zones. German officials have so far carefully abstained from saying this, as they think that any expression of doubt about execution of a contract weakens the binding force of that contract, but it is quite obviously in their minds and still more in the mind of the public. Remove or dispel this suspicion and the course of negotiations will be easy.

Two minor indications of opinion:

THE Russians are desperately anxious to make out that they are on better terms with His Majesty's Government than is really the case.

THE French Embassy are making a renewed attempt to soften political asperity.

BERLIN, *January 17, 1925.*—While military disarmament in Germany is practically complete, I am less happy about the problem of aeroplane development and doubt if the Treaty of Versailles has dealt with this most important matter in a really effective way. The intention in that Treaty was to restrict and curtail the construction of military aeroplanes in Germany, and nine rules have been laid down by the Allies under which military aeroplanes are prohibited, while civil aeroplanes are allowed. Alarmists say that no effective distinction can be made and that the only result of restrictions has been an intensive development of German industry abroad. It is generally admitted by experts that civil aircraft can readily be converted into military machines of fair efficiency in a short space of time, and it is possible that Powers which are restricted will secretly prepare military fittings, such as bomb racks and machine-gun stands, to facilitate such conversion when the time occurs. As with aircraft, so in a lesser degree with submarines. It is alleged that German subjects have established private laboratories and workshops in various countries; in Spain, in Sweden, in Switzerland and in Holland. In the last-named country periscopes are made; in Switzerland, submarine engines; in Sweden, torpedoes, and in Spain, shells.

BERLIN, *January 21, 1925.*—The new Government has so far been a disappointment to its friends, and still more a disappointment to its opponents. The former consider it too tame; the latter find that there is nothing in the Government programme which they are likely to be able to attack with much success. Everyone—friend and enemy alike—is surprised at the moderate and progressive tone adopted by Luther and Stresemann. Surprise would be even greater did the public know the contents of the memorandum Pact of Mutual Security which I forwarded to London last night. (*See Appendix III.*)

CHAP.
V
—
January
1925

IN readiness to meet Allied demands in the matter of Security, and in general conciliatoriness of tone, this document goes far beyond anything which the public in Germany expect. It is to be noted particularly that the idea of bringing America in as a "Treuhand" or Trustee, which I have always thought rather impractical, is not stated as an essential condition.

THE German Government are prepared to negotiate Security on any reasonable basis. In my view, whether the precise proposals made are immediately practical or not, it is important to have them on record officially, and to base discussion upon them. They constitute an immense step forward in the direction of pacification.