CHAPTER VI

JANUARY—FEBRUARY 1925

Historic German initiative: first draft of what became Locarno—The new Chancellor of the Reich, Dr. Luther—The new Pact of Mutual Security as compared with that of 1922—Cassel on the Dawes Plan—Stresemann on possibility of Commercial Treaty—German Press on Security—Luther's speech to the Press—Chilly British attitude towards German initiative—Chamberlain criticises Luther—Luther on Germany's foreign policy.

BERLIN, *January* 21, 1925.—We appear to be entering on an interesting phase of negotiation. Yesterday, the Secretary of State handed me a most important memorandum from the Chancellor and the Minister of Foreign Affairs. For the first time, this document takes up the question of reciprocal security on broad lines. (*See* Appendix III.)

IN brief summary, the German Government say that the question of security has always played a considerable part in the attitude of France towards Germany. Germany is now ready to take this point of view into consideration and to enter into an agreement of a general nature in order to secure peace between Germany and France.

AFTER referring to the proposal made by Dr. Cuno in 1922, which was turned down by the French Government, the German Note declares that a Pact of Mutual Security such as they now propose could be combined with an arbitration treaty, Germany being prepared to conclude such treaties for the peaceful settlement of juridical and political conflicts with all European States. Further, Germany would agree to sign a Pact expressly guaranteeing the present territorial status on the Rhine, and engaging to conform to the obligations laid down in Articles 42 and 43 of the Treaty of Versailles regarding the demilitarisation of the Rhineland.

THE Note concludes with a phrase, saying that if there is

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a sincere desire for peaceful evolution in all the States concerned, a secure treaty foundation cannot be difficult to find.

THIS German initiative is of the utmost importance. I have long thought the question of mutual security between France and Germany infinitely more important than the minor discussions on which we have been engaged and less difficult of solution than the smaller issues.

IT remains to be seen what reception the German initiative will meet with in London and Paris. At first, surprise will be so great that no one will grasp the real importance of the negotiation, or believe in the *bona fide*. Some will suspect a German device for creating difficulties between France and England.

BERLIN, *January* 22, 1925.—Luther, the new Chancellor, is not a party politician.

HE first came into prominence at the end of 1923 as Minister of Finance, and can claim, with Schacht, the principal merit for the restoration of Germany's finances and the stabilisation of her currency. Although Schacht took the leading part as regards currency, it may fairly be said that, by restoring equilibrium to the Budget, Luther rendered it possible for Schacht to avoid excessive note issues and thus create stability. Neither could have achieved his end without the other. The transformation of revenue returns under Luther's administration has been astounding. Within a few months the receipts of the Government have increased many hundred per cent.

LUTHER has none of the minor graces, but a sturdy presence, not unlike a Thames tug, and a capacity, not to say a predilection, for saying "No." As an orator he has hitherto enjoyed no great reputation. But his speech yesterday surprised everyone by its vigour and conciseness. It proved that he is most effective in reply, while, in developing his case, he possesses the Bonar Law faculty of reeling off figures without a note and without an error.

The Reichstag was deeply impressed with the force of the Chancellor's personality.

THE politician behind the throne in the Luther combination is supposed to be Stresemann, who possesses a profound knowledge of the game, and whose judgment of political probabilities I have found, on several occasions, to be singularly correct.

BUT in dourness and decision Luther may turn out to be the stronger. The fact that he is Chancellor of the Reich is a guarantee for stable currency conditions and for a maintenance of rigorous fiscal administration.

BERLIN, *January* 23, 1925.—I have been through the German Memorandum of January 20 again, and am more than ever impressed with its vast importance. In its present form it is ultra confidential. Outside the German Foreign Office no one has seen it except the Chancellor, Luther. I understand it has not been discussed by the Cabinet. Schubert tells me that the German Government have in mind pacification of a permanent character. Several alternatives are indicated, and the Government are prepared to discuss any proposals which will bring about a real feeling of security and pacification. With these ideas in mind, they consult the British Government first, less with a view to obtaining their assent than to ascertain in what manner we should advise bringing the proposal forward. Schubert is clear in his own mind as to the fundamental importance of the step.

HE impressed upon me that the proposal must not be confounded or confused with minor controversies. The proposed Pact is of a different order of magnitude.

BERLIN, *January* 24, 1925.—It is interesting to compare the new proposal of the German Government with the Pact of Non-Aggression which was presented by Cuno in December 1922.

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THE basis of the earlier negotiations was that a solemn obligation of Non-Aggression should be undertaken by both France and Germany; England, Italy and Belgium coming into the engagement in a secondary degree. The solemn obligation was to be undertaken towards the disinterested trustee—the United States.

THIS proposal immediately met with so favourable a reception in Washington that it was communicated by Washington to Paris. But the French Government, under Poincaré, refused to treat, and rejected the proposal so categorically that Hughes considered nothing was to be gained by further negotiations at that time.

THE most authentic account of the episode was contained in the German Chancellor's speech at Hamburg on December 31, 1922. He said that he had received the authorisation of the United States Government to mention the subject of the negotiations only an hour before he spoke. This authorisation was subject to the condition that America should not be mentioned by name, but should only be alluded to as a "third Power" or as a "great Power."

CUNO continued, saying that the object of the German Government was to establish peaceful relations and to prove that all parties in Germany were resolutely opposed to a war of revenge or to warlike operations of any kind. WHILE there can be no reasonable doubt that the speech at Hamburg was intended to give the maximum guarantee of peace, it had precisely the opposite effect, for the closing words were: "Germany on the one hand and France on the other would engage not to make war *except by authority of a plebiscite.*" As no plebiscite has ever stopped a war, this phrase not unnaturally raised suspicion and suggested insincerity. This was pointed out to Cuno, who at once said that if the words weakened the security of the pact they must be deleted. A formal declaration to this effect was communicated to the British Government.

In a later conversation regarding the proposal, the Chancellor argued that the essential fact regarding the declaration was that it was made by a Government which was supported by all parties in Germany, notably by the Right. This gave the offer a solidity which it would not have had if it had proceeded from a Socialist Government or even from a Government of the Centre, in which the parties of the Right were not represented. Moreover, proposed by him, a Pact of Non-Aggression would certainly not be attacked by the Right, whereas, if proposed by a Government more to the Left, grave opposition was to be feared. If the plebiscite was deleted, the declaration would run as follows: "England, France, Italy and Germany solemnly engage themselves not to declare war or wage war with one another for thirty years. Further, they bind themselves to the United States of America to observe this engagement." The engagement, as proposed, was not limited to the declaring of war, but included the waging or carrying on of war.

As regards the limitation of the engagement to a generation of thirty years, this was indicative and not limitative—it was not a maximum, but rather a minimum. The German Government states that they would agree to fifty years or to any considered practical period.

From the point of view of European pacification, it was certainly an error to reject this proposal out of hand. If the terms were either inacceptable or inadequate in their original form, they could have been modified and made the basis of fruitful negotiations.

Poincaré, however, rejected the whole proposal *a limine*, declaring it was hypocritical and designed merely to prejudice the debate. The Ruhr advance was then only a few days off.

It is to be hoped that the attitude of two years ago will not be repeated by the French Government of to-day. The terms of the Pact of Mutual Security are much

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wider and more fluid than those discussed in 1922. Indeed, nothing which could lead to a practical result appears to be excluded from consideration.

BERLIN, *January* 25, 1925.—That such an initiative as the Note of January 20 should have come from the new German Government must be a great surprise to everybody who is aware what a disappointment the Government has been both to friends and to opponents.

THOSE who have previously considered them too tame will certainly have to revise their judgment. When the Note comes to be published there will be shouting of the captains.

BERLIN, *January* 26, 1925.—During a recent conversation with Professor Cassel, I found that he is by no means confident either as to the final possibility of carrying out the Dawes plan or regarding the stability of German currency. On the latter point his theory is that the Reichsbank, as soon as its gold reserve has been increased by the produce of the loan of 800 millions R.M., will unduly increase the note circulation of the country.

As is well known, Cassel is hostile to the view that circulation can be increased without danger merely because a gold reserve exists amounting to 30, 40 or 50 per cent. of the total issue. He regards stability of exchange as essentially due to the restriction of the amount of currency in circulation to the amount of real currency requirements. Value of a currency is maintained by scarcity and by no other essential clause. The gold reserve theory he considers obsolete, except in so far as it affects velocity of circulation.

HE is also of opinion that, in the Dawes report, far too much prominence was given to the gold-backing theory.

IT is interesting to record that these general views were

expressed by Cassel in conversation with myself and Luther. The latter was in agreement with Cassel. The Chancellor proposed at some early date, and as soon as he had leisure for the purpose, to write an account of the currency reform in Germany. This will constitute an epilogue to the pamphlet he published some time ago entitled *Fester Mark—solide Wirtschaft.*

THE Chancellor, who can claim a large share of the merit of the German currency reform, remains a fervent believer in the quantity theory, attaching at the same time importance to the influence of velocity of circulation.

CASSEL went on to say that what has been done in Germany in the matter of currency reform is not only a great achievement in itself—it is both an example and an encouragement to other nations, for it proves that currency stability is more a matter of will than anything else. It also shows that it is wiser to stabilise at the level where you are rather than to endeavour to revert to a higher level. This would presumably apply to France and Italy. For special reasons Cassel would not have advocated the application of this general conclusion to England.

IN a further conversation with Cassel, he denounced all the talk which there is in Germany about a favourable and unfavourable balance of trade as being largely based upon an illusion. In his view there must always be equilibrium, and little importance would attach to an alleged excess of exports or of imports, even if the figures regarding them were capable of far more exact estimation than is at present the case. The richest countries of Europe have always had the largest unfavourable balance of trade. In the case of the United States, it would seem that the so-called favourable balance is in the long run impossible unless very large transfers of capital are made from America to Europe. Should this not occur, America would be compelled to increase her purchases of goods from Europe.

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BERLIN, *January* 29, 1925.—*Die Zeit* publishes this morning a note on the question of Security, declaring that reports in the foreign Press of a fresh German proposal are inaccurate. The German Cabinet has not yet discussed the question. Moreover, Germany is now engaged in controversy regarding Disarmament, so that it is scarcely advisable for her to raise the question of Security.

THIS publication must have been inspired by the Government, and had probably two objectives: to quiet opponents here; to make the English Government realise that they have been rather slow in responding to the German initiative, and that Germany, not having been encouraged in her endeavours to establish a basis of Peace, will not persist in them.

STRESEMANN expected an immediate response of a cordial character to his bold initiative; he is disappointed that so far from cordiality there has been no reply whatever.

BERLIN, *January* 30, 1925.—A conversation with Stresemann rather confirms my impression about the article which appeared in *Die Zeit*. It was clear that he was annoyed at the absence of any response to his initiative. It was essential for the dignity of Germany that she should not put forward fundamental proposals for general pacification, except at a moment when such proposals would be properly treated. As such did not appear to be the case at present, he was—speaking for himself—inclined to postpone the whole discussion and recede from his offer. He could not tolerate that a proposal of the highest importance for the peace of Europe like the proposed German Pact of Mutual Security should be confused with a minor discussion such as that regarding Disarmament.

I DID my best to smooth down Stresemann's feelings, and pointed out to him that in matters of such importance time was obviously necessary. Stresemann's attitude is to a certain extent tactical and, possibly, good tactics. It

would be bad diplomacy for the German Government not to insist upon the vast importance of the recent initiative.

BERLIN, *January* 31, 1925.—Luther's speech last night to the Press was understood to mean that all reasonable demands for military disarmament would be carried through. The one reserve was in regard to the police.

THE essential condition for military disarmament is still that the Allies should make a clear statement that evacuation indubitably follows execution of Treaty obligations. The words in the Allied Note of January 26 went some way in this direction, but they were a pale travesty of Lord Crewe's original draft. It may conceivably be possible to reinsert his words in some future Allied communication. If this is done, it will be found that difficulties in the path will diminish very rapidly.

As soon as it is made clear to the German mind that evacuation follows automatically, unjust suspicions regarding our attitude will disappear. I attach great importance to this.

WITH regard to the German initiative in the matter of Non-Aggression, it appears to me impossible not to regard their Memorandum of January 20 as a serious guarantee of peaceful intention. Compared with previous offers, the phrases used are more precise: the general scope is larger. To adopt the view that it is a dodge or trick of controversy is not only unjustified by the facts, but would be extremely inexpedient even were it justified.

JUST at the moment Stresemann is disappointed at the lukewarm reception of the German initiative, and is inclined to recede from his original proposal: this is partly tactics; partly inspired by finding that some members of his Cabinet think that the Memorandum of January 20 went too far and was too definite. I do not doubt, however, that with skilful management he will come round himself and will carry his colleagues.

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I HEAR confidentially that Stresemann says to his friends: "It would be easier for Germany to make some agreement with Briand or Loucheur, because neither of them would meet with the violent opposition from the Right to which Herriot is exposed. It is an analogous case to that of Germany, where I am able, with the Nationalist members I have at last succeeded in getting in the Government, to come to a fair arrangement with the Allies, much better than the Socialists would have done. No one believed that my object in bringing in Nationalist members was to be conciliatory: now they see that what I said was true, and that I can afford to be more conciliatory than the Socialists, with whom the French continue to intrigue against me."

BERLIN, *January* 31, 1925.—From a confidential source I hear that Stresemann's present inclination to recede from the offer of the Pact of Mutual Security is not merely tactics, but is caused by unexpected resistance which the proposal has met with in the Cabinet.

BERLIN, *February* 1, 1925.—The cause of London's silence regarding the German proposal is now clear. The line taken has been that the English Government could not receive confidential negotiations from the German Government, unless they are at liberty to discuss them with our French Allies. Moreover, the British Government hold that the question of French Security must be first defined before any discussion is possible regarding the German Pact of Mutual Security.
NOT very promising.

BERLIN, *February* 2, 1925.—The following is said to be authentic:
GERMAN Ambassador to Herriot:
"WE cannot understand why France makes such a fuss about some rusty old pieces of iron at Wittenau."

HERRIOT:
"ONLY four nails were needed for the Crucifixion."

BERLIN, *February* 3, 1925.—President Ebert dined here last night, also the new Chancellor, Luther, and the American Ambassador and Mrs. Houghton. The dinner was mainly a farewell dinner to the Houghtons.

I HAD some talk with Luther after dinner, and found him both perturbed and annoyed at Chamberlain's criticism of his speech last Friday.

HE said that his tone had been most conciliatory, and had been considered so both in Germany and in France. He did not understand how Chamberlain had derived so false an impression, since he had specifically said that Germany would make good deficiencies in military disarmament, and was also prepared to discuss with France a Pact of Mutual Security.

CHAMBERLAIN'S attitude rendered the task of the new Ministry decidedly more difficult. He himself did not know what line to take.

IN reply, I advised Luther to wait until he had the full text of what had been said—telegraphic summaries were extremely misleading, and I should be surprised if, when he received the full text, the impression was not modified. It was particularly noticeable that Chamberlain had mentioned Germany's readiness to make good deficiencies in military disarmament, and had also repeated, not for the first time, the declaration that the Allies would scrupulously fulfil their Treaty obligation. This declaration, in my opinion, might fairly be read in connection with the Reuter telegram regarding automatic evacuation of the Cologne area as soon as Treaty demands are strictly complied with.

THE impression left on my mind by the conversation is that Luther considers Chamberlain so prejudiced against Germany that it is impossible to base any line of policy upon co-operation with London.

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THE German Government are unquestionably disappointed that their initiative of January 20 regarding a Pact of Security was not taken up more warmly. In my view it was a grave mistake not to have responded to this advance at once in an encouraging sense.

I HAVE had no direct indication from London as to the view of the English Government on the subject, but Schubert informed me of a conversation between Chamberlain and Sthamer, in which stress was laid on the impossibility of England doing anything in this matter without the full knowledge of France, and great apprehension was expressed lest conversations between Berlin and London should be regarded as disloyalty to Paris.

MILD appreciation of the German proposal was expressed, but it was added that the present moment did not seem opportune, as the Protocol was still under discussion. When the Protocol had been dealt with, it would be time to discuss the German proposal.

THE above is the German view of what Chamberlain said. It is possible that the English records of the conversations may give a slightly different impression. Whatever the words used may have been, and whatever the precise intention of the interlocutors was, the bald result is that, for the moment, the proposal has receded into the background.

I DO not think it was without benefit that it was made, but I repeat what I have said in an official telegram, that it is a vast pity that measures were not taken to encourage the development of discussion on so hopeful a basis.

BERLIN, *February* 3, 1925.—All I hear from London goes to show that the main effect of the German initiative has been to arouse suspicion in official circles. It is held that a discussion on the question of a Pact of Mutual Security cannot be usefully entered into until the attitude of Great Britain to the question of French security is defined. I

hope this does not mean that the Bilateral Pact, guaranteeing both France and Germany, is going to be cold-shouldered in favour of an Anglo-French and anti-German agreement. Such a result would be deplorable.

I CONTINUE to impress upon London that it is impossible not to regard the German memorandum of January 20 as a serious guarantee of peaceful intention. Compared with Cuno's offer, the words used are more precise, the general scope larger. To imagine that it is a mere trick or dodge is unjustified and unwise. The fact that such an offer has been made must influence, if it does not bind, future German Cabinets. The more importance we attach to the negotiation the greater its influence on the future.

I STILL think that Stresemann's annoyance at the lukewarm response to the German initiative is as much tactics as irritation. But he does not respond readily to my assurances that all will come right, and that the German attitude will finally be understood.

BERLIN, *February* 5, 1925.—I am disappointed to hear from London that the German overture of January 20 is considered premature, and that they believe the moment not opportune for the successful prosecution of so large an initiative. This is totally contrary to my own view, but it is difficult to know how to bring them round.

THE German Ambassador in London reports that the main, if not the sole, advice he received from the Foreign Office was that the most effective step Germany could take would be to join the League of Nations, and that Chamberlain was wholly unable to understand Germany's refusal to take a step so obviously in her own interest. With regard to the Note of January 20, Chamberlain could not agree to be put by Germany under any obligation of secrecy towards our Allies. While the present overture is premature, he believes that France may be willing at some later time to consider some such proposal, but not until the attitude

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of Great Britain on the question of French security is more fully defined. A further reserve was added that nothing would be possible if the agreement proposed was to be dependent upon the evacuation of the whole of the occupied territory.

It is possible that Sthamer has not reported fully all that Chamberlain said, and that he has missed the important point, which was that by their proposal of January 20 the German Government declared their intention to enter into a binding agreement to respect French security, provided that their own security was equally safeguarded by the same document. This is a new departure of such vast importance that all subsidiary considerations and all fencing and finessing about diplomatic niceties should be ignored.

Berlin, *February* 7, 1925.—I have now ascertained that the German proposal for reciprocal security is not in any way dependent upon the evacuation of the whole of the occupied territory. This ought to help things forward in London.

In the matter of military control, events of the past week are wholly satisfactory. Chamberlain's representations, in Paris, had an almost magical effect, for General Wauchope tells me the attitude of his colleagues on the Disarmament Commission has suddenly changed, and that they appear desirous of bringing about a solution as rapidly as possible.

I am also glad to hear from London that as a means of getting a settlement of outstanding questions, the plan of a Conference versus notes has been adopted. The sooner the Conference takes place the better.

The present moment is exceptionally auspicious, in that the constellation of Luther-Stresemann, supported by tame Nationalists or semi-tame Nationalists, is the one most favourable to general agreement. Apart from the

general mutability of human affairs, the duration of this combination is specially threatened by the atmosphere of financial scandal which prevails in Germany to-day. Revelations of an incriminating character follow one another in quick succession and any public man may be attacked. The Socialists are deeply discredited through Bauer.

BERLIN, *February* 9, 1925.—The new Chancellor—Luther—has made a satisfactory declaration regarding the foreign policy of the country. First and foremost, he is determined to carry out strictly the Dawes plan. Secondly, he is prepared to enter into negotiations for a Pact of Mutual Security, and is favourable to any measures which will produce tranquillity and peace.

THE important point about this attitude is that it has been adopted by a Government in which the Reichstag as a whole is represented. Had a Government which did not contain members of the parties of the Right made this declaration, there would have been grave opposition. Stresemann has always underlined this view, declaring that the Right were more dangerous in opposition than in office. The event proves his contention correct.

FROM the point of view of the Allies, the essential necessity now is to negotiate rapidly, and when I say "negotiate" I mean personal negotiations, not a mere exchange of notes. There is another condition necessary to success, namely, to abandon the view that Germans are such congenital liars that there is no practical advantage in obtaining from them any engagement or declaration. On this assumption progress is impossible. Personally, I regard the Germans as more reliable and more bound by written engagements than many other nations.