

The obligations take the form of 5 per cent bonds redeemable at call by the German Government—at the outset on easy terms, gradually rising to par at the end of 32 years.

The bonds are divided into two series, Series I representing the fixed payment (rising to $2\frac{1}{2}$ milliards per annum), Series II representing the additional payments over and above $2\frac{1}{2}$ milliards per annum from the eleventh year onward.

There is no sinking fund, but redemption, more especially in the earlier years, is permitted upon such liberal terms that the saving in annual interest on the bonds redeemed will, if German credit is reestablished, be sufficient to cover both interest and sinking fund on German loans raised in the market for redemption purposes.

This arrangement gives Germany a strong inducement to raise such loans as soon as possible, since she will thereby convert a perpetual into a terminable obligation without increase of the annual charge and also substitute a normal foreign debt to private bondholders for her present obligations to foreign Governments.

The bonds provided for in the scheme are not intended either to be issued to the public or placed on the market. They are to serve merely as accounting machinery. The "mobilization" of the German reparation debt is to be effected by loans raised by Germany from the public, the proceeds of which would be applied to the redemption of the original bonds.

In order to give Germany a real chance of restoring budget equilibrium and stabilizing the mark, it is absolutely essential that she should be given complete freedom from payments in foreign currencies during the initial period, and that deliveries in kind (except in so far as the receiving countries may be willing to pay cash for them) should be reduced to a minimum.

It will, however, be necessary that the deliveries on reparation account of coke to France, coal to Italy, and possibly dyestuffs should be continued, though upon a reduced scale, even during this initial period. The precise quantities can only be settled by negotiation.

In the event of the plan proving successful, it is highly probable, however, that Germany would herself seek to increase her deliveries in kind in the early years to a maximum, in view of the liberal terms on which the value is applied to the cancellation of her debt.

The plan would be offered to Germany on condition that she undertakes (1) to stabilize the mark in accordance with the recommendations contained in the majority report of the foreign experts consulted by the German Government in November last, and to restore budget equilibrium, with limits of time to be prescribed (say six months for the stabilization and two years for the budget reform); (2) to accept such financial supervision as may be deemed by the Allied Powers to be necessary to see to the punctual carrying out of these reforms (see schedule "B"); (3) to submit, in the event of her failing to satisfy the supervising authority that condition (1) is being observed, or failing to discharge her obligations as now revised, to any measures which the Allied Powers, upon a report of such failure from the supervising authority, may unanimously decide to be necessary, including forcible seizure of German revenues and assets and military occupation of German territories outside the existing zone of occupation.

INTERALLIED DEBTS

The following proposals are put forward for dealing with inter-Allied debts upon the understanding that the above reparation plan is accepted and all proposals for the taking of pledges ("gages") and application of sanctions (otherwise than as provided for in the above plan) are abandoned:

1. Gold deposits now held by Great Britain as security for inter-Allied debts are to be applied toward the reduction of these debts.
2. The first series German bonds to be received by France in respect of the Belgian war debt, and $1\frac{1}{2}$ milliards of the first series bonds to be received by Italy in respect of her share of reparation are to be transferred to Great Britain.

3. The balance of the net debts owing as between European Allies in respect of advances³ for the purpose of carrying on the war is to be entirely written

³ The status quo would not be interfered with as regards inter-Allied postwar indebtedness.