

THIRD MEETING (PRIVATE)

held at Paris on Tuesday, January 30th, 1923, at 11.45 a.m.

Present All the representatives of the Members of the Council, Dr. SAHM, President of the Senate of the Free City M. ASKENAZY, representative of Poland General HAKING, High Commissioner of the League at Danzig; and the Secretary-General.

834. Financial Situation of the Free City of Danzig.

M. ADATCI read a report (Annex 446).

M. VOLKMANN, Senator in charge of the finances of the Free City, who replaced M. Sahn for this question, said that the situation at Danzig could only be understood if the two following facts were taken into consideration, first, that for more than a hundred years Danzig had been in need of outside assistance, which she had always obtained in the past, and, secondly, that Danzig, which was a small State, had nevertheless to fulfil all the obligations incumbent on a State.

For three years Danzig had struggled to cope with her financial situation, and it could now be said that that situation had been relieved. Government expenditure had been reduced as far as possible, though this had naturally resulted in the curtailing of certain social and educational activities. Despite this reduction, the population was weighed down by very heavy taxation.

The budget had been balanced, and, in M. Volkmann's opinion, the Free City was one of the few States of Europe which had succeeded in achieving this. The 4 % loan contracted by the municipality of Danzig before the war had risen from 90 % to 3000 % which proved the public confidence in the solid position of the finances of Danzig.

The Free City of Danzig, though in a solvent condition, lacked ready money. It was in a state similar to that of a business man whose financial affairs had been shown to be in a sound condition at the end of the year, and who had therefore asked for and obtained from a bank the loan necessary for his working capital. Danzig was in the same prosperous condition as the business man, but there was no bank to which it could have recourse, nor could it print banknotes. This latter restriction was perhaps an advantage, but it entailed the disadvantage that Danzig was without working capital and did not know from what source it could obtain it.

The credit of the Free City had, owing probably to the decision of the Reparation Commission of January 6th, 1923 (Annex 446a), greatly improved, and M. Volkmann desired to thank the Reparation Commission in the name of the Senate of Danzig for the decision which it had taken. The liens had only been suspended for one year, however, and unless the suspension were prolonged, the Free City would be unable to raise a loan. Moreover, the interest charge of 3 % per annum on the claims of the Reparation Commission constituted a heavy burden for Danzig, equal in itself, this year, to from 4 to 6 times the total amount of the expenses for the administration of the Free City. If the Free City were allowed to give priority to lenders on all assets which it possessed, disregarding the debt incurred as a result of the peace settlement, it would be easier to solve the problem.

M. Volkmann thanked Sir Richard Haking for the interest which he had always taken in this question, which was of such importance to the Free City.

He wished also to thank the Council of the League and the Financial Committee for the good advice which they had given to Danzig.

On behalf of the Free City he asked that those whose duty it was to protect it should assist it to reap the benefits resulting from the measures which had been taken. Without their aid, the situation of the Free City would continue to be hazardous.

M. ASKENAZY, representative of Poland, said that M. Volkmann had pointed out that Danzig had been obliged to receive outside help for a hundred years. It should be remembered that the natural economic bonds between Danzig and Poland had been broken for a century. The Polish Government was convinced that, as these bonds had been re-established, in accordance with the provisions of the Treaty of Versailles, Danzig should easily be able to balance its budget from its own resources. The fact that Danzig had been able to balance its last budget of 1922 was due, without doubt, in great measure to its present relations with Poland. Poland had, for instance, paid into the Treasury of the Free City in that year, in round numbers, 1,700 million German marks, which represented Danzig's share of the customs revenues from Poland. The postal administration had paid over to the Free City more than a milliard marks, net revenue, an enormous sum when compared with the figures for former years. This was almost entirely

due to the considerable development in postal traffic from Poland. Further, it must be remembered that the upkeep of the railways was paid for entirely by Poland, which bore the burden of a very heavy deficit on this account. The absence of unemployment was an additional sign of the financial prosperity of the Free City. Only 12 million German marks had been set aside in the 1922 budget for unemployment doles, and at present there were no unemployed in Danzig.

With regard to the real estate belonging to the Free City and the financial burdens with which it was encumbered, M. Askenazy referred to his statement of September 9th, 1922, quoted by M. Adatci in his report. He confirmed the explanations which he had given to the Council and declared that he completely agreed with the conclusions of M. Adatci's report.

General HAKING said that the financial position of Danzig was such that she was unable to continue from one quarter to the next owing to the lack of working capital. Provided that good relations with Poland continued, Danzig would in time, he thought, show a credit balance which would be sufficient for working capital.

Lord BALFOUR enquired how it was that a city in such a fortunate commercial situation, and displaying great powers of self-government, was unable to surmount the difficulty of finding enough money to continue from quarter to quarter.

The PRESIDENT said that the Free City would have to furnish explanations to the Reparation Commission. In balancing its budget, the Free City had to take into account two circumstances outside her control, but which would not last for ever—the moratorium, and the question submitted to the Conference of Ambassadors as to what could be done regarding the cost of the French and British troops of occupation. The balancing of the budget which had been achieved therefore depended on these two considerations, which would eventually cease to exist.

It would appear that the Free City received its taxes in cash, but did not possess sufficient funds to meet expenditure before the actual receipt of these taxes. Other States were also in the same position, which was not an enviable one. The Council could not apply the moratorium to working capital, only the Reparation Commission could do this and extend, if necessary, the moratorium in order to make a loan possible. Two solutions alone were possible—taxation or a loan. A loan could only be granted if a method of control were set up. Had the Free City any securities to offer?

DR. VOLKMANN replied in the negative.

The PRESIDENT enquired whether the Free City possessed communal properties.

General HAKING replied that the Free City had no securities, and could not even contract a short-term loan. No banks would lend her money because of the lack of securities.

After a short discussion between the PRESIDENT, Lord BALFOUR, General HAKING and M. ADATCI, the Council decided to refer the question under discussion to the Financial Committee of the League, and adopted the following resolutions

“(1) The Secretary-General is requested to thank the Reparation Commission for its letter of January 6th, 1923, and for the action which it has taken to relieve the financial difficulties of the Free City of Danzig.

“(2) The Secretary-General is requested to communicate to the Financial Committee of the League all the recent correspondence on this question, with a request to that Committee to continue to follow the developments in the financial situation of the Free City and to make such further reports to the Council of the League as it may deem desirable.

“(3) The Secretary-General is asked to request the Danzig Government to continue to keep the League of Nations informed with regard to its financial situation and with regard to any further steps taken to carry out the recommendations approved by the Financial Committee of the League on September 6th, 1922.

“(4) The Secretary-General is requested to communicate to the Reparation Commission and to the Conference of Ambassadors those parts of the correspondence which concern their work and to represent to the latter the desire of the Council to receive an early reply regarding the matters referred to it.”

The Council further decided that a copy of the Minutes of this discussion should be sent to the Financial Committee.

835. The Police of the Free City of Danzig.

M. ADATCI read a report (Annex 447) and reminded the Council that the enquiry which had been made had been asked for by the French Government.

The PRESIDENT noted that public opinion in Danzig was not particularly hostile to the French uniform. It was mentioned in the report that foreign uniforms generally had been objected to by certain portions of the population, and that the hostility which they displayed