

having regard to the principles laid down in the fourteen points. On the other hand, France demanded that an absolute preference should be accorded to her claims for reparation in respect of the devastated areas; and those claims, which are based on extraordinarily high estimates, would have left little or nothing for any claims of the British Empire. To obtain an absolute preference France was willing to reduce her claims materially and that proposal obviously harmonized with the point of view originally insisted on by President Wilson. However, unless there is some unexpected development the arrangement above outlined will probably be carried out. Doubtless it will encounter fierce criticism not only in France but in many other Allied nations. It is understood that the United States will not participate in any indemnity but may present certain relatively small claims for destruction of shipping.

6. The proposals as to reparation and indemnity submitted by Mr. Lloyd George commanded the approval of all the Dominions' Prime Ministers except Mr. Hughes, who was rather vague in defining what he would be prepared to accept. About an hour and a half was taken up with him in discussing the subject.

7. One disadvantage of this proposal would have been obviated by another arrangement outlined in a previous memorandum.¹ The claims of the Allied nations must be submitted to a commission which will report upon the amount properly allowable. This commission will probably have power to give a hearing to the Germans and may permit them to offer evidence. It should be added that the claim of the British Empire, estimated at 2,200 in millions of pounds sterling, comprises (a) the capitalized value of pensions throughout the Empire, estimated at 1,200, and (b) the destruction of shipping and other property estimated at 1,000. In capitalizing pensions it will be necessary to adopt (purely for this purpose) an arbitrary scale applicable to all countries, in order to arrive at a just and uniform result.

8. In accepting the proposals submitted by Mr. Lloyd George, and upon which it was necessary to reach a quick determination, the Prime Ministers of the Dominions were largely influenced by their belief, which was shared by Mr. Lloyd George, that if this proposal could not be carried out the situation likely to develop in view of the attitude assumed by France and by the United States would result in the British Empire receiving nothing by way of indemnity and little by way of reparation.

9. Sir Robert Borden was also influenced by his belief that the terms thus proposed fixed the outside limit of what Germany will be able to pay. He expressed doubt as to whether Germany would not regard an acceptance of the Bolshevik Regime as preferable to even these terms. That possibility was freely admitted by Mr. Lloyd George and by other Dominions Prime Ministers; but it was felt that the risk must be taken. In France there are eight million men engaged in agriculture and four million in industrial pursuits. In

¹Presumably refers to proposal in Memorandum Number 12.