

THE AMERICAN WAR-LOANS AND JUSTICE

BY OSCAR T. CROSBY

I

LET the severe language of the statute declare the origin of our loans to the Allied governments of Europe during the World War. Thus it runs: 'For the national defense, and for the better prosecution of the war, the Secretary of the Treasury, with the approval of the President, may purchase the obligations of foreign Governments engaged in war against Germany.' Details follow, fixing the relationship between interest rates and maturities of the loans thus authorized, with the corresponding elements of loans that might be made by our citizens to their Government. For, already, it was contemplated that taxation alone would fail to supply all the material support of our adventure. This statute was signed April 24, 1917. On April 25, the British Ambassador received a check for \$200,000,000. A week later, half that amount was turned over to the French Ambassador. A little later, Italy fell into line as a borrower, then Belgium and Russia, Serbia, Greece, Roumania — all eventually called for aid.

The pace thus set did not slacken until the cause was won. 'National security,' slightly jeopardized by our declaration of war, had been preserved; 'the better prosecution of the war' had been accomplished by furnishing to our associates vast quantities of things without which they were in a fair way to lose entirely *their* national security. Measured in money, the aid thus

loaned is figured at about nine and one half billion dollars. Post-Armistice transactions, authorized by other statutes, carry the total (in round figures) to ten billion dollars. Nearly half of the total went to Great Britain. France came next with about \$3,500,000. Then came Italy with \$1,700,000,000. The remainder fell, in various lots, to other borrowers.

Governmental action is traditionally slow. The remarkable promptitude with which Secretary McAdoo proceeded (only twenty-four hours between receiving and exercising the responsibilities placed upon him by Congress) answered to a remarkable pressure brought to bear by the powers 'engaged in war against Germany.' I shall not soon forget the blunt declaration, made to me ten days before Sir Cecil Spring-Rice took the first fruits of our efforts, by a member of the firm of J. P. Morgan & Co. 'We have scraped the bottom of the box. They owe us and our associate banks four hundred million dollars — practically on overdraft, since we cannot sell the collateral remaining in our hands without making a panic on the New York Stock Market. You people in the Treasury must now bear the whole burden. We can do no more.'

Six weeks later, we learned that, in addition to this cash commitment, the Allies had contracted for about eight hundred million dollars' worth of goods, deliverable within six months.

Only the superb daring of a Lloyd George could have created such a dangerous situation. And only our entrance into the struggle could have turned danger into ultimate victory. Epic poets have sung chiefly of the violence of human passions in love and hate, in battle and murder, in storm by sea, in strange wanderings by land. These are dramatic. Yet a stirring tale might be told of work by day and night, while an untried course was found for financing our own huge needs and largely aiding struggling governments across the Atlantic. But all that story can wait — or, perhaps, it will never be told.

Just now the American people must concern themselves about the payment or nonpayment for that portion of their wealth which was transferred to foreign governments by a courageous Secretary and an approving President in a war triumphantly ended, to the great aggrandizement — after many and serious losses — of our comrades in arms.

Are we to find — as Polonius would have it — that ‘loan oft loses both itself and friend’? Certainly there has been much cooling of that ardent sentiment which welcomed us into the fight, and approved us while we unstintingly poured our beef, pork, wheat, cotton, copper, steel, for the maintenance, not only of our own troops, but also for soldiers and civilians in all the Allied lands.¹ Experience has already

¹ While the greater bulk of these supplies came from our own fields, factories, and mines, much of it originated in neutral countries. In effect, by ‘supporting the Allied exchanges,’ we purchased for them large quantities of goods in Spain, Holland, the Argentine, and elsewhere. Even from British territory — as Canada and India — values running into the hundreds of millions of dollars went to the Allies, paid for in American funds, and now constituting a respectable part of the existing loans. It is further to be remembered that Allied governments sold much of all they received from us to their own private

given partial justification to the old Dane’s caustic philosophy. Having wisely defied his introductory prohibition, — ‘neither a borrower nor a lender be,’ — are we now to find that our wheat has been lost along with the friendship which, for a time, it sustained?

Before seeking an answer to that question, we should show decent regard to an opinion which denies the character of just debts to the claims under discussion.

Those who hold this opinion boldly cast aside the letter and the spirit of the transactions *when they were made*, as well as the repeated assertions of the borrowing governments themselves — assertions so public and so recent that I may presume them to be lodged in the minds of all who may read this article. The dissenting views are those of individuals, on both sides of the ocean. They have created a considerable literature on the subject. The thesis of those who clamor for cancellation of our claims on ‘moral’ grounds may be thus summarized: ‘A number

citizens. Receiving for these goods their own currencies, the burden of internal financing (through taxation or loans) was correspondingly diminished for these governments, and increased for ours. Cotton and copper, thus supplied to European manufacturers, appeared, as finished products, in competition with the products of the American people who had loaned the raw material. On account of representations made after I went to Europe, as President of the Inter-Allied Council on War Purchase and War Finance, loans in neutral countries were secured by the Allies, covering purchases made in those countries. The drain of dollars for these neutral supplies was thus diminished by several hundred millions. Some reluctance was shown in London and Paris to seek loans from minor powers. With this reluctance I sympathized, but I thought it my duty to request that efforts should be continued. Secretary McAdoo heartily approved my recommendations in this respect. Success came. Our own exchanges, which had suffered considerably, improved soon afterward, as a consequence of this relief.

of nations were banded together in a common cause; whatever each could (or did) furnish, in men and material, in furtherance of that cause, should be held simply as *its contribution* to that cause, even though specific engagements to the contrary may have been made during the period of conflict.'

Carrying still further the 'common-cause' idea, others seem to say: 'America entered into war long after her cobelligerents were involved, and long after she should have entered; hence our loans should be considered, not as collectible debts, but as a conscience fund, dedicated to, and in expiation (if only partial) of, our long-continued sin of omission.'

Anything that might be deemed a cool and dispassionate study of the causes of the war belongs to the future. Many people, on both sides of the quarrel, may discover facts that were hidden or distorted during the war period, either by the deliberately false, though patriotic, action of governments, or by the maddened zeal of private partisanship. And these discoveries will probably change all extreme views ascribing complete diabolism or complete saintliness to one or the other of the contestants.

II

Into the maelstrom of argument that is destined to rage over this subject, we need not enter now. For, back of the 'common-cause' and 'slacker-nation' cry, there is an assumption that may be formulated and discussed to-day independently of beliefs about the circumstances preceding the World War.

That assumption might be thus expressed:—

'Whenever two or more nations go to war, every other nation must promptly determine to take up arms against that belligerent whose action

is most condemned, and whose victory would, presumably, result in oppression of the conquered and in possible future encroachment against the rights (or interests) of all the onlookers. And if, for any reason whatever, such prompt decision is not made, but subsequently certain developments of the strife induce a former neutral to wage war against an objectionable belligerent, then the late arrival in the arena shall not only try to force redress of his own specific injuries, but shall also confess his wrong-doing through delay, and shall endeavor to compensate the earlier combatants on his side for this wrong done to them.'

Such a rule of action, if made universal, would, in every outbreak of war, divide the whole world into two hostile camps, all, save the original contestants, being swept into action by the hysteria of the moment. Or, it would so penalize and humiliate a nation preferring deliberation to hysteria, that it would find its interest best served by keeping out of the mêlée entirely, even though this course might involve much forbearance in respect to its neutral rights. This rule would condemn all those nations which permitted Great Britain to work her will upon the Boers; permitted us to force the Spaniards and Filipinos to their knees; permitted Japan to humiliate first China, then Russia. It would require us now to take up arms against the Turks, and, almost certainly, would embroil us with others whose views might be found contrary to our own. Under such a régime, the world's past history, blood-stained as it is, would appear as the Golden Age of relative peace.

Further, it would require us to hold in abhorrence Spain, Holland, Denmark, Norway, Sweden, and nearly all of our neighbors of the Western World. If, indeed, the true cause of our war-making is to be found, not in the Lusitania

incident and others of like nature, but in some menace to Democracy, then these nations should be held to an accounting. After making some adjustment by reason of our tardiness (by what rule, let him declare who propounds the doctrine), we should, with the Mikado, the President of Liberia, and all other champions of Democracy, be justified in demanding of Spain, and other 'slackers,' that they beat their breasts in shame, and open their treasuries to the demands of outraged belligerents who fought *their* battles. Thus we can make war not only universal, but perpetual.

But, ere we thus career into chaos, driven by a worthy but unreasoning emotion; ere we take any official step which would make a precedent for this quixotic type of internationalism, let us put the new theories to the test of the hustings. Let a presidential election turn on the question whether or not governments are organized to represent the interests and the views of the majority of their citizens, who want to think calmly, even about things that profoundly stir their sentiments. There are many who, while recognizing that the groups called nations have interests in common, are yet convinced that governments should not hastily scan far horizons of space and time, and suddenly determine to sacrifice the lives and fortunes of the governed, to forfend against some general menace, thought to be discerned in the mists. They believe that, however justifiable may have been our final decision to war against Germany, it was also justifiable that we should take our time for observation, reflection, and action. They believe that the European nations involved in the war had, for years, been contemplating a probable conflict over complex interests, and had, therefore, what seemed to them compelling reasons for immediate de-

cision. They also hold that, if our own great power should rush into every quarrel, the world will not be fit to live in.

Let Nicaragua or Liberia fly quickly into passion — no great harm is done. But when the Giant of the West instantly translates the emotions of a majority, or a minority, into war — then quondam friends will all eventually turn against us, in fear of a destructive force that may at any time be directed against themselves.

The partisans of deliberation (save in case of invasion) prefer to stand on the record; to make no apology; to reserve liberty of action in the future — until, perhaps, an International Tribunal, armed to enforce its decrees, may have been set up for keeping peace among nations. Further, they hold that, if we are to make a new balance-sheet, based upon relative losses among belligerents, then we should also scrutinize relative gains. For this purpose, it is not necessary to allege — however probable it may be — that our associates had ever coveted, before the war, the ends which they realized at Versailles. Sufficient for such purpose, that they showed, in 1919, keen determination to gather the spoils made available to them by a victory not obtainable without our help. Nor were these spoils limited to moral justifications in having made 'the world safe for Democracy' by destruction of the power of Hohenzollerns and Hapsburgs. Very material, indeed, are vast claims for reparations, vast transfers of territory.

It is not my purpose to criticize these acquisitions. But surely Americans might reasonably insist, if the account is to be opened on the basis indicated, that the work should be complete, if possible. And if evaluation is impossible, then no such basis should be adopted.

III

Shall we seriously undertake to measure all the elements of the problem? Shall we endeavor to give specific weight to relative danger; relative responsibility in the past for creating the danger; relative security gained for the future; relative losses, direct and indirect, suffered during the war; and relative gains obtained through victory? A little reflection, I believe, will lead most men to conclude that such an undertaking is not only impracticable but perilous.

No more fertile source of discord could be contrived than a conference called for discussion of these questions, in connection with a proposal to investigate the justice of our claims for repayment of values loaned to our war-time associates.

Cancellation of these claims is urged by a powerful group of men (chiefly, I believe, in New York), on quite different grounds from those just set forth. Instead of insisting upon the purely angelic qualities of our late companions in arms, they now think that they see much selfishness, much folly, in the uses to which the European Allies have put our common victory. And it is asserted that this selfishness is not only injuring the perpetrators, but is also actually lowering the price of American wheat.

Taking these assumptions as a text, the proponents of this theory now proclaim that we should purchase good behavior in Europe by a program of debt-cancellation, in connection with pledges from our debtors to conduct their affairs as we think they should be conducted.

In recent expositions of this doctrine, widely published, Great Britain has been excepted from the charge of arrogance, militarism, and imperialism, while those serious faults are strongly

urged against France. Hence, French policies specially are to be put in tutelage to our omniscient righteousness.

Other nations are to be told that they err through the adoption of protective tariffs. To this declaration I heartily subscribe — but I fail to see how it can be urged by the present Administration.

I wish it were possible, within the limits of this article, to destroy, by citation of facts, figures, and sound principles, the foundations of this much heralded gospel of American superiority and French inferiority in moral and political vision. But I must content myself with registering my own belief that its application in practice would be followed by endless confusion. And, if France should be puerile enough to take direction from us, we should be bound to assume grave, though ill-defined, responsibilities toward a host of unsuspected European complications.

If the proposals in question should ever appear in the Congressional forum, I think we may feel assured that, in spite of much confusion of thought on foreign policies, discussion will reveal the fact that we are not in business as a government, to make appropriations covering a bonus to foreigners in exchange for the privilege of directing their economic and military policies.

Perhaps the use of the word 'appropriations' in this connection will not be understood by some readers. Yet, in effect, the cancellation of our uncontested claims against other governments would involve, quite directly, an appropriation of values belonging to the people. Those values may not be collectible at par; we may even voluntarily diminish them, on purely financial grounds, — which will be suggested below, — but the just residue of them is public property, not alien-

able save for the public good. We should be patient, indeed, with our debtors, for their case is difficult; *but our patience should be directed toward recovery of the material values lent to others for their uses.*

And it is precisely in considering the actual material values supplied to the Allies that we may be led to propose or accept a reduction in the face value of the obligations received by us. The goods — wheat, steel, and the rest — that were loaned were valued, during the period of delivery, in money-terms much higher than those prevailing before and since the war. Gold, and its equivalents in currency, had lost much of their usual purchasing power. If we represent all goods by wheat, we may put the matter simply as follows: we lent, say, five billion bushels of wheat, and received due-bills, in terms of dollars, which, if delivered to us now, would have the power to purchase, say, ten billion bushels of wheat. Unless prices are again disturbed by war, it is probable that some such ratio will hold for many years to come. We might, therefore, permit payment to be made on the basis of the comparative index-numbers, taken for the war period and for the dates of payment as they occur in the future.

The thesis here suggested is familiar to economists. The practice involved has long been urged by many competent authorities as appropriate to all contracts of relatively long maturity. No situation, I think, could present a stronger claim for the application of this rule — if desired by the debtor — than the one we are considering. It would merely free the transaction from the effect of abnormal fluctuations in the value of money.

As one of a hundred million owners of these Allied obligations, I hereby register my consent to such a transaction.

IV

The matter of interest-rate is also one in which modification of existing understandings might reasonably be made. By the word 'reasonably' in this context, I mean that which would be meant in a parallel case between individuals, if the creditor, allowing a reduction in the original rate, were led to do so by a belief that his debtor would more certainly be able to pay the principal sum due through relief in respect to interest charges. Obviously this question should be made the object of detailed study as a basis for final action.

And so for the major question of the ability of our debtors to meet their acknowledged obligations. Whether we consider these obligations as defined by the letter of the contract, or as modified by the index-number rule as cited above, we should be ready to examine every case independently, and as lengthily as the debtors may desire. But we should *not*, I think, assume that present difficulties in Europe furnish data for wise conclusions. Obviously, the German reparations settlement must affect the sums realizable by us in the near future. And other disquieting complications in Europe — particularly their currency systems — will similarly react upon our claims. The effect of all such conditions, and of modifications in them, will be clearer in a few years than now. We may wait for final offers from our debtors until they say: 'We have made such and such provisional agreements as to reparations; and if you consent to such and such terms, in respect to our indebtedness to you, the whole chain of settlements will become effective.' That, it seems to me, is the limit to which we should go in permitting any relationship to be established between our just dues and the European imbroglio.

We need not enter into conferences over the subject. Indeed, since no delegate of ours could commit Congress to any particular action; since no administrative negotiation in treaty form could commit the Senate, it may be much better that we should steer clear of any engagements of European States, inter se, and simply pass upon proposals, if any be forthcoming, as to modifications of our own claims. We should *not* become materially, or morally, responsible for such mutual engagements as our ex-associates and enemies may see fit to make among themselves.

In order, however, to be prepared as far as possible for prompt action, when action may be asked, our Debt Commission should be empowered to consider and report upon *any* propositions made by the debtors, instead of being restricted, as at present, to negotiations which are probably doomed to be barren. The statutory maturity-period is too short, the interest-rate — at least for some years to come — is too high, I believe. Let the Commission have two or three years for study; being empowered meanwhile to accept payments on account, if offered, but not to demand interest of embarrassed debtors. Let them be free to recommend to Congress *any* settlement that may seem wise to them, but to make *no* settlement, unless the debtors express willingness to meet the terms already indicated by statute.

In their report they should develop specifically the following subjects: (a) probable ability of each debtor country to *produce*, in five-year lustrums, a stated surplus beyond comfortable self-support; (b) probable ability of governments to acquire this surplus from their citizens without taxation so high as to defeat its object; (c) probable ability of world-markets to absorb such surplus; (d) probable form in which we

could receive this surplus over our tariff walls.

This last heading has presented serious difficulties to many inquirers. I think they underestimate the value of importations which do not compete with our productions. Thus, coffee, jute, tin, rubber, sugar, silks, and other such commodities make a great aggregate in our national purchases. If, through payments by foreign governments, our Government should, in effect, have a call upon these goods, then this call would be sold to our own citizens, and the dollar-proceeds would be available for paying our national internal debt and diminishing taxation correspondingly.

It will be said that our exporters would thus be prevented from exchanging their products for those importations. Some diminution might, indeed, be felt in this particular. And if man's appetites were strictly limited, if only a fixed amount of every article in commerce could be consumed by the race, then a static world would be unable to meet any change of conditions without severe shock. But, in fact, there is but one fixed element entering the equation — that is the cubic contents of the human stomach. This means that, if all of a given population have enough of meat and bread from a given source, no more can be consumed. Even in this matter of food, however, there is elasticity. Many poor people do not have all they *can* consume and *want* to consume of certain kinds of foods. And, in respect to clothing, housing, lighting, travel, amusements, and the like, there is, practically, no limit to man's desires. Let not the wealthy, who are now chiefly heard in lamentation over the ruin that will befall us if we receive equivalents for the things we loaned, forget the fact that millions of their fellow tax-payers will be glad to have

their share of the returns in increased consumption of both domestic and foreign goods. And let us remember that the hey-day of prosperity is not always with us. We have seen hard times. We may see them again.

Nor need we, as a nation, take into our borders immediately all that may be paid to us from abroad. Foreign investments may be increased *ad libitum*. Thus, the actual return to America may be spread over a longer period than that of formal payment. If the world's productive capacity continues to increase during the next fifty or sixty years as it has done in each such period since the day of Watt, our debtors can pay, and we can receive, all values in question. These represent only a fraction — roughly, ten per cent — of our total production during a period of *two years*.

This point is rarely understood in its full importance. We lived fairly well; we spent riotously on our own war-making; we increased our plant and we furnished vast supplies to our associates — all out of current production. Soldiers of all the Allied armies ate bread and fired projectiles which had been taken out of the ground only a few months before they were thus expended.

Bearing this in mind, we need not hasten to assume ultimate insolvency on the part of governments representing a far greater population than ours, when confronted with the task of returning, in a very long period, that which we furnished in one twentieth or one thirtieth of the time that may be allowed to them. Their national 'plant' (productive capital) is now, or soon will be, as great as in 1914. Nay, it will be greater. Certainly, they can return it if a reparations sum, even much reduced below the figure now fixed, be paid by Germany alone, in an equal or shorter period.

Let us equally avoid the rôle of Shylock and that of fairy godmother in dealing with our debtors. Thus may we preserve our self-esteem, and they the *credit of their governments*. A very precious possession to all the world is the orderly execution of contracts, both public and private. Friendship has its firmest foundation in sincere efforts to fulfill obligations. To me, no suggestion of cancellation came from European borrowers until about the time of the Armistice. Some confusion of mind at that time was to be expected. Everybody was shell-shocked. Time will restore mental poise.

COMMUNISTS AND PLOUGHSHARES. II

THE SOVIET COMPROMISE

BY LOUIS LEVINE

I

THE agrarian developments in Russia in the last year and a half may be regarded as an effort to digest the experience of the preceding four years, and as a groping for a way out of the situation created by the complex forces of the Revolution. After April 7, 1921, when the Soviet Government, directed by the Communist party, issued the now famous decrees inaugurating the 'new economic policy,' abolishing requisitioning and the state monopoly in grain, and allowing the peasants to sell their grain in the market, the Communists began searching for a new policy in the village.

After much discussion in their party press, they took the problem up at their party conference in December, 1921. They likewise made it the central topic of discussion at the ninth All-Russian Congress of Soviets, which was held during the same month. The discussion overleaped the boundaries of the Communist press, and attracted all those who are in one way or another active in agricultural work, regardless of political opinions.

A special Congress of representatives of the local land departments was held in January, 1922. An All-Russian Congress of surveyors and agricultural officials was held in February, 1922. Several hundred agricultural experts and agronomists — of whom less than

fifty were Communists — met in congress at Moscow, in March, 1922. At all these congresses, the discussion assumed a wide range and was characterized by a remarkable freedom of expression. Finally, the ideas which prevailed as a result of all this talk and writing were embodied in the decrees passed at the special session of the All-Russian Central Executive Committee, and are now the law of the land.

The following is a summary of the new principles and methods by which the Soviet Government, under the leadership of the Communist party, expects to reconstruct Russian agriculture:—

In the first place, from now on, each village is free to choose any form of land-holding it pleases. By a simple majority vote of its male and female members over eighteen years of age, a village may decide to remain as a mir, under which the land is subject to periodic redistributions, or to divide the land once for all among its members, or to arrange to cultivate the land as a coöperative enterprise, or to adopt a mixed arrangement for different sections of the land.

But as against this will of the majority, the new law allows more than one opportunity to those who prefer to farm individualistically. Whenever a general redistribution of land takes place, any number of peasant house-