

# FURTHER ECONOMIC CONSEQUENCES OF THE PEACE

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AMERICA AND THE BALANCE SHEET OF EUROPE. BY BASS & MOULTON. New York: The Ronald Press, 1921

OU VA LA FRANCE? OU VA L'EUROPE? BY J. CAILLAUX. Paris: Aux Editions de la Sirène, 1922

PEACELESS EUROPE. BY FRANCESCO S. NITTI. London: Cassell, 1922.

**T**O AMATEURS of Clio the various clichés of each succeeding generation, from the days of Laô-Tse to our own, offer insight into the means by which the world's numerous and quite extraordinarily diversified group of saviours intended that it should be saved. One common factor alone has characterized and still characterizes this group, apart from its will to save—a persistent lack of a true sense of humor. Mr. Wells and Nietzsche, Comrades Lenin and Rousseau, Mr. Wilson and Savorola are one in this respect. There have been some few exceptions, Rabelais and Swift for instance, but these have taught through satire and irony, both media distrusted by the mass of mankind in all ages. Their followers have been few and seem to have been considered ribald fellows, destined to (and no doubt achieving) a bad end.

The result of this lack of humor on the part of those who have sought to save this world of ours is more serious than may at first sight appear, for it implies the inability to see men and events in true perspective. Possibly this is why the world has not yet been saved and, if one may judge by our present day saviours, is not likely to be saved in the very immediate future. A reading of the three books here to be discussed but confirms this impression.

Mr. Keynes it is who is primarily responsible for the fact that economists have left their studies to assume the mantles of prophets and to worry us with visions of an apparently entirely new hell, but one which in reality differs from other hells only in the fact that it is said to await us immediately around the corner. Little hope for escape is held out. We must reform and do penance now. The end approaches. All this had been predicted before and man nevertheless survives. Quite so, but it has never before been predicted by economists, and they *know*.

The leitmotif of this great symphony is the "Economic Interdependence of the Peoples of Earth." Stranger things are being said and done in the name of this new god than were ever done in the name of Liberty, poor woman.

Messrs. Bass and Moulton for instance, appear to hold that unbalanced budgets will in a short time as thoroughly destroy the economic structure of central and western Europe, as five years of Bolshevism has destroyed that of Russia. This contention is worthy of serious consideration because it conceals one of the errors which mark all three of the works here being examined.

The argument runs somewhat as follows. Since the armistice, European governments have made no real effort to adjust expenditures to income. This is not only because the task is difficult, but also because of deliberate disregard for the maxims of sound finance. The resulting rapidly mounting national debts place upon future revenues an unbearable charge for *past* services. Production is denied upkeep and renewal funds. It disintegrates, the burden of taxation can no longer be carried. Governmental bankruptcy and debt repudiation result.

First. Consider the contention that governments disregard the necessity of balanced budgets. There is very great doubt whether this statement is borne out by the facts.

Two instances at least may be cited to disprove it. In Czechoslovakia, so stringent a programme of taxation was imposed with the intention of balancing governmental income and outgo that the same economists who had been crying for just such a programme found themselves forced to denounce it as intolerably oppressive. It was discovered that the country was better able, under existing circumstances, to carry its national deficit in the form of a slowly mounting debt than to meet the governmental tax requirements. This was particularly so inasmuch as the new debt incurred could in a great measure be considered productive.

In France, where, since the armistice, the vastly greater portion of the sums spent in excess of receipts—some 125 billion francs—has been devoted to war liquidation and reconstruction, every effort has been made to compress expenditures of all kinds. War departments have been energetically eliminated. The sums required for the upkeep of the civil services have been reduced by over 4,300 million francs since 1920; those for military expenditures by over 2,500 million; and those for non-permanent Treasury accounts by 4,500 million francs. In the period during which

these reductions were being made receipts from permanent taxes were increased from 15,000 million francs to 19,500 million francs. In addition to this effort the government ceased all recourse to bank advances as a means of procuring funds and was nevertheless able to continue to finance its reconstruction programme.

Governmental deficits in France which totaled over 51 billion francs in 1919 were reduced to 38 billion francs in 1920, to 30 billion francs in 1921 and will in all probability be further reduced to 25 billion francs in the current year. These figures are given not with the intention of proving that the situation of the French Treasury is not serious but simply to show that this fact is realized and that a real attempt has been made to ameliorate it.

Second. The resulting rapidly mounting national debts place an unbearable charge upon future revenues destined to recompense past services, thus crippling present production. This is unquestionably the case where the debt and the national income are concentrated in a few hands. Its applicability to many European states, with the exception of Germany, may be doubted. French Treasury officials claim that over 17 million French men and women hold government securities. If taxes are sufficiently equitably distributed, the burden of carrying service charges on such debts should not prove insupportable, particularly if funding operations are undertaken before exchanges return to parity. Figures for other countries are not available but as concerns the Entente powers and one or two succession states the same conditions were stated by Gide, at Genoa, to prevail in varying degree.

To fortify their case, Messrs. Bass and Moulton devote a chapter to the analysis of the foreign trade of Great Britain, France, Italy and Sweden. Those who foolishly held that European trade was improving come in for a good sound rating. Of France they say: "There has seldom been a more egregious error in the interpretation of economic data than that which finds in recent French trade figures evidence of remarkable improvement in French conditions. The collapse of French imports, which alone accounts for the favorable balance, is apparently due in part to curtailment of American export credits; but it is in the main a reflection of the world-wide business depression. All that can be said is that French imports have held up surprisingly well as compared with those of other nations."

Let us examine into the soundness of Messrs. Bass and Moulton's methods of making an "interpretation of economic

data." In the first place the figures compared are those of the last five months of 1920 and the first six months of 1921, and they are stated in terms of *values* only. No analysis is made of the French system of computing the values of imports and exports. The figures of trade in tons, the only true indice, are not given. Definitive figures for France's trade in 1920 and 1921 are now available, and they completely disprove the contention of Messrs. Bass and Moulton that French trade conditions have not improved:

FOREIGN COMMERCE OF FRANCE FOR 1920 AND 1921

<i>Metric Tons</i>		
<i>Imports</i>	<i>1921</i>	<i>1920</i>
Food Products . . . . .	4,066,434	6,195,261
Raw Materials . . . . .	32,448,478	41,871,777
Manufactured Goods . . . . .	1,458,774	2,464,888
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Totals . . . . .	37,973,686	50,531,926
<i>Exports</i>		
Food Products . . . . .	1,227,133	1,257,615
Raw Materials . . . . .	12,858,481	9,709,081
Manufactured Goods . . . . .	1,890,778	1,865,215
Postal Parcels . . . . .	25,036	23,327
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Totals . . . . .	16,001,428	12,855,238

MERCHANDISE IMPORTS AND EXPORTS (SPECIAL TRADE) OF FRANCE, 1920 DEFINITIVE FIGURES, 1921 FIGURES ON BASIS OF 1919 OFFICIAL VALUATIONS

<i>Millions of Francs</i>		
<i>Imports</i>	<i>1921</i>	<i>1920</i>
Food Products . . . . .	6,205	11,874
Raw Materials . . . . .	12,398	25,156
Manufactured Goods . . . . .	4,945	12,873
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Totals . . . . .	23,548	49,903
<i>Exports</i>		
Food Products . . . . .	1,932	2,612
Raw Materials . . . . .	5,558	6,113
Manufactured Goods . . . . .	12,809	16,962
Postal Parcels . . . . .	1,253	1,206
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Totals . . . . .	21,552	26,893

The collapse of imports amounting to 12,500,000 tons, of which so much is made, was principally due to reduced imports of coal, 8,000,000 tons, gasoline, 1,400,000 tons, and foodstuffs about 1,000,000 tons. The reduction of coal imports, principally from Great Britain and America, was not due to greatly reduced needs, but to surplus stocks accumulated at the end of 1920 and to an increase of over 4,000,000 tons in French production. Reduced imports of gasoline were due apparently to a curtailment of motorist demand and to the growing use of Mazout as a substitute for fuel oil. Food imports were reduced because of the good crops of 1920.

Turning to exports, it will be seen that they increased by over 3,000,000 tons, principally due to increased production and sale of iron ore, steel and raw chemicals. If the volume figures for 1921 be compared with those of 1913, it will be found that both exports and imports have fallen about 6,000,000 tons below the levels of that year—the falling off on the one hand being almost wholly due to reduced imports of coal and on the other hand to a reduction of exports of iron ore, foodstuffs and coal. Exports of manufactured goods almost equaled in volume those of 1913.

Examination of the trade figures in terms solely of values offers no real basis for conclusions such as those of Messrs. Bass and Moulton. Prices in France have declined violently since June, 1920; their fluctuation is even now considerable. A glance at a table of price indices ought to be sufficient proof of this fact, even for economists with a mission. What is this mission? Its grand lines were laid down by Mr. Keynes in the closing chapters of his "The Economic Consequences of the Peace": reduction of the reparations bill, cancellation of inter-Allied indebtedness, abolition of economic frontiers, unification of Central Europe under German tutelage, all to be combined with a good scolding for the naughty and sceptical French. Messrs. Bass and Moulton do not stray far from the road indicated by Mr. Keynes. They have his same obsessions, they view the situation through American-made glasses but they see it in the same light. So far the only part of the program to be realized is that which has to do with the scolding of the French; this has been carried on with great gusto. Has it helped much towards a solution?

M. Caillaux is also busily engaged in scolding the French, apparently principally because they were unprepared to follow him to the peace and prosperity to which he was quite prepared to

lead them. His book deals in generalized terms with the events which led to the debacle of 1914. He believes that economic combinations in all countries were fundamentally to blame for the war—free trade would have made war impossible. Therefore free trade, the cancellation of inter-Allied debts, the reduction of reparations, and, most important of all, a return to the *Présidence du Conseil* of M. Caillaux, with all that such an event implies, will set the world on the right road.

Caillaux again *Prémier Ministre*! It is not at all impossible. A very few years and it may be probable. Caillaux, with all his faults, has one of the best minds in Europe. He is practical, he understands the Germans. He is the hope of the *radicaux* and, the *radicaux-socialistes*. He appears to realize that no economic settlement in Europe is possible without a *political* settlement first. He understands the futility of seeking to re-establish the Central Europe of 1914, though he condemns the succession states as constituted by the Versailles Treaty. He sees a way out of the impasse which exists: a Franco-German entente. He sees the difficulties in the way of its realization but believes that he can surmount them. His faith in himself is robust. It is a pity that he no more than hints at the necessary conditions of such an entente. They are many and complex, and can only be briefly and incompletely stated. From the French viewpoint they are: the firm establishment of republican sentiment throughout Germany; some real show of willingness on Germany's part to make good, in as great a measure as possible, the material damage she did; a more cordial acceptance by Germany of Poland and certain of the Little Entente powers as political entities, which the French believe are destined to endure, economists notwithstanding.

The German requirements for such an entente are more difficult to divine but they would probably include: the scaling down of the reparations bill, the evacuation of the Rhine bridgeheads, and a stopping of the silly attempts to cause the Rhine provinces and Bavaria to secede from the Germanic confederation. People of importance in both France and Germany are working quietly towards the realization of these conditions; in the rather sentimental common sense of the Germans and the present disillusionment of the French lies, perhaps, their best hope of success.

Sig. Nitti's is in some ways more interesting a work than those

of Messrs. Bass and Moulton or M. Caillaux. It is certainly more self-revealing. Sig. Nitti is deeply imbued with the cultural superiority of the Germans over their neighbors to the east and southeast. He bewails the freeing of the Poles, the Czechs, the Slovenes, the Croats from the benevolent tutelage of the Teuton. Shades of Cavour and Mazzini! What wonders have steam and electricity not wrought! In his enthusiasm for Germany Sig. Nitti is led into making the statement that the Treaty of Versailles has caused more harm than did four years of war. This view has at least the merit of originality. The chief blame for the treaty he, of course, places on France. Mr. Lloyd George has recanted and done penance, let him be absolved of blame. The French have no coal to sell and no money to loan—they are a much safer target. In the midst of one of his paens of praise for Germany, Sig. Nitti stops for a moment to visualize a peace treaty dictated by her. His conclusion is not without interest. He says: "If Germany had won the war—Germany, to whom we have always attributed the worst possible intentions—what could it have done that the Entente has not done? It is possible that, as it is gifted with more practical common sense, it might have laid down less impossible conditions in order to gain a secure advantage without ruining the conquered countries."

The basis of Sig. Nitti's indictment of the Versailles Treaty is that it violates at every turn the Fourteen Points, which he deems a guarantee offered Germany if she would make peace. This argument is not original with him and he makes less telling use of it than others have made. It is open to attack from two angles because it presupposes, first, that Germany need not and would not have asked for an armistice except that she considered herself guaranteed by the Fourteen Points against the major consequences of a military defeat; second, that the essence of the Fourteen Points was violated by the Versailles Treaty.

In regard to the first count, Ludendorff makes it abundantly clear that after the capture of the Quéant-Drocourt Switch by the Canadian Corps the situation of the German armies in France was critical, and this not only because of the discouragement of the German people, but because of the manifest strategical superiority of the position of the Allied armies. He was on both accounts unable to undertake a grand retreat to the Rhine. He could either be overwhelmed where he stood or ask an armistice. He decided, naturally, on the latter course. A peg was then sought on

which to hang this request. The Fourteen Points were at hand and served the purpose admirably. But they had been at hand since January. Why it took so long to discern their value as the basis for the just and equitable peace which Sig. Nitti is sure was all Germany sought is a question which has not yet been answered.

On count two Sig. Nitti makes a long list of what he considers violations of the principles of the Fourteen Points. His arguments are not in general convincing and he further weakens them by curiously overlooking essential facts. For instance, he considers the return of Alsace-Lorraine to France free from all public debt incumbrances to have been a flagrant injustice, but he does not mention the fact that Germany did not assume Alsace-Lorraine's share of the French public debt in 1870. In another instance, he makes much of the "gift" to France without any *quid pro quo* of the Sarre Mines, but he apparently has forgotten the very clear repurchase clauses of this section of the treaty. In dealing with the purely economic clauses of the treaty, Sig. Nitti concentrates his attack on the very principle of reparations. Here again he weakens a case which, if he had been content to use the inclusion of the pensions item in the total reparations bill as his main point, would have been unanswerable.

Analyzing the reparation demands made by France, Sig. Nitti gets himself into a tangle. He seeks to demonstrate the absurdity of M. Loucheur's estimate of 75 billion francs as the sum required to complete the physical reconstruction of Northern France. This is how he does it: "The value of land in France was calculated before the war at between 62 and 78 milliards; the value of buildings, according to the *Annuaire Statistique de la France*, at 59½ milliards. The territory occupied by the Germans is not more than a tenth of the national territory. Even taking into consideration the loss of industrial buildings, it is very difficult to arrive at the figure of 15 milliards." Sig. Nitti is speaking in terms of gold francs and he does not point out that M. Loucheur was speaking in terms of francs two-thirds depreciated from gold parity. Further, he fails to mention some 5,000 kilometers of railroads destroyed, together with over 750 bridges and tunnels. He forgets, or possibly he does not know, that 70 per cent of *all* the industrial establishments in France employing over 20 men were concentrated in the devastated regions. This example of his economic reasoning is typical of his brief against the reparations section of the treaty.



In spite of Sig. Nitti, it is still clear that with the exception of the indefensible pensions item of the reparations bill, the Versailles Treaty follows, with only minor aberrations, the ill-defined statement of principles which is called the Fourteen Points.

Sig. Nitti closes his book with a chapter devoted to a statement of what he considers the essentials of European peace. The chief of these are: the revision of the treaty, to be undertaken by a revised League of Nations (Articles 5 and 10 to be changed in some way not clearly defined), with Russia and Germany admitted to full membership; the abolition of the Reparations Commission, its functions to be assumed by the League; the reduction of the indemnity to between 25 and 30 billion gold marks; the cancellation of the inter-Allied and Russian debts; finally, after these aims are all realized, Great Britain and Italy are to guaranty France against German aggression for a period of twenty years. The sting, you see, is in the tail. After recent experiences with granting concessions in return for promised guarantees, it is safe to predict that the French, without whose cooperation (and that of America) this whole program is but talk, will this time, in the words of M. Briand, go "*vite plus lentement.*"

The Nitti proposals would require very considerable concessions from France, America and Great Britain, but, as in the past, principally from France. France's victory has cost her much, but that is no reason for not asking her to give up more, even the measure of security she claims under the right the Versailles Treaty gives her to occupy the Rhine bridgeheads. She should abandon the major portion of her claim to reparations, annul, in the interests of mankind, the debt Russia owes her, but at the same time pay her debt to England and America, presumably also in the interests of mankind.

Messrs. Bass and Moulton, Nitti and to a lesser extent Caillaux, in their preoccupation with matters economic, have lost sight of the very crux of the whole European problem, which is predominantly political—the fact that no solution is possible without a France made safe against future invasion and assured of reparations (in the true sense of the word) in the greatest measure possible. She believes the Versailles Treaty guarantees her the means of obtaining both these essentials. Until some at least equally satisfactory substitute is offered her it is a waste of time to ask her to abandon it, particularly on economic grounds. It is often disagreeable to think of things as they are, not as they

should be, but the fact is that France is more interested in her future security than she is in the world's supposed economic rush to ruin.

From many angles, the stand she takes seems a harsh one; it is, but it is based on a harsh fact, the fact that charity begins at home. Her friends have not been loath to apply this principle and should the more easily understand her doing so. Not until they are willing to acknowledge the facts behind her stand can a lasting peace be established in Europe.

# SOME RECENT BOOKS ON INTERNATIONAL AFFAIRS

*By Harry Elmer Barnes*

## *General International Relations*

INTERNATIONAL RELATIONS. BY JAMES BRYCE. New York: Macmillan, 1922, 275 pp.

Williamstown Institute Lectures. Mature reflective generalizations on the chief problems in international relations and on the leading proposals for their solution.

AN INTRODUCTION TO WORLD POLITICS. BY H. A. GIBBONS. New York: Century, 1922, 595 pp.

A general historical introduction to modern imperialism and international relations, with especial attention to the period since 1895. A well written text-book.

AN INTRODUCTION TO THE STUDY OF INTERNATIONAL ORGANIZATION. BY PITMAN B. POTTER. New York: Century, 1922, 647 pp.

A comprehensive history and analysis of the machinery and procedure in modern international relations, including diplomacy, treaties, arbitration, international administration, conferences, federations, and the League of Nations.

MANUAL OF COLLECTIONS OF TREATIES AND OF COLLECTIONS RELATING TO TREATIES. BY DENYS P. MYERS. Cambridge: Harvard University Press, 1922, 685 pp.

A monumental compilation and valuable guide.

SECRET DIPLOMACY. BY P. S. REINSCH. New York: Harcourt, 1922, 231 pp.

The author discusses the problem of the reconciling publicity and democratic control in diplomacy with expert direction and continuity in diplomatic practice.

THE NEW WORLD: PROBLEMS IN POLITICAL GEOGRAPHY. BY ISAIAH BOWMAN. Yonkers: World Book Company, 1921, 632 pp.

The most important descriptive work which has yet appeared on the post-war world. A useful compilation of discriminatingly selected data, with especial stress on geography.

WASHINGTON AND THE RIDDLE OF PEACE. BY H. G. WELLS. New York: Macmillan, 1922, 312 pp.

Chiefly Mr. Wells' ideas on current international relations. Critical of French motives and policies.

## *Foreign Relations of the United States*

LEADING AMERICAN TREATIES. BY C. E. HILL. New York: Macmillan, 1922, 399 pp.

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THE CONDUCT OF AMERICAN FOREIGN RELATIONS. BY J. M. MATTHEWS. New York: Century, 1922, 353 pp.

A thoroughly scholarly analysis of the legislative and administrative organs involved in our relations with other states.

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A striking challenge to conventional views regarding the motive of the United States in entering the World War. It ascribes American intervention chiefly to pressure from Wall Street.