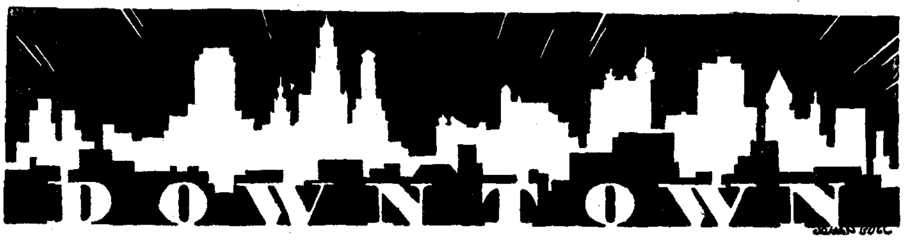

Let's Cancel the War Debts

by DONALD REA HANSON

"CANCELLATION or reduction of the inter-allied debts has been increasingly discussed throughout the world," said Albert H. Wiggin, Chairman of the Governing Board of the Chase National Bank of New York, at the annual meeting of stockholders of the bank last January. "This question has an importance far beyond the dollar magnitude of the debts involved," he continued. "Without commenting on the many arguments on both sides of the controversy and aside from the question of the justice of cancellation, I am firmly convinced that it would be good business for our Government to initiate a reduction in these debts at this time."

These remarks followed a brief discussion of the adverse factors affecting business at present, among which Mr. Wiggin considered the inability of foreign Governments to obtain dollars in sufficient amount both to make interest and amortization payments on their debts, and to buy our exports in adequate volume. On this topic were centered the public comments of international bankers at the annual meetings of banks both in this country and in England. The subject has been forced to the front once more, after a period of quiescence of several years, as a result of the world-wide economic depression. The problem of the war debts is one that appears to be fundamental now, when bankers and business men are soberly studying and analyzing all the factors contributing to the depression in business, with a view to finding the way to relief.

Most casual observers are inclined to dismiss the subject of cancellation of war debts with a shrug of the shoulders and a reminder of what former President Coolidge once said about the matter, to wit: "Well, they hired the money, didn't they?" And that is the plain legal fact of the matter. Most of the Allied Nations that borrowed from the United States during the war, in order to bring the conflict to a successful conclusion, "hired" the money. They have acknowledged the debt, and have arranged a basis for redemption of the debt over a period of years. But the question is not one of the legality of the debts. It is a plain question of expediency: Would it not be better business for us to cancel the debts?

We may approach this question from the standpoint of protecting our own interests first, selfishly if you please. And we may find that there is a great deal to be said in favor of cancellation from the plain standpoint of money in the pocket for the business man, industrialist, farmer, and even the taxpayer. At any rate let us examine the proposition.

ISOLATION IMPOSSIBLE

FIRST we might do well to consider that a policy of isolation from external affairs of the world is practically impossible for this country, now that the United States has emerged from the position of a debtor nation to that of a creditor nation. We have loaned large sums of money abroad, both privately and through the United States Treasury. We are not self-sufficient commercially. Last year we shipped $3,800,000,000 worth of our products abroad and in 1929, when business was good, we shipped over $5,240,000,000 worth. At the same time we received $3,061,000,000 of goods from foreign countries in 1930 and in 1929 our receipts from abroad ran up to $4,400,000,000. Now it is essential that both the credit which we have loaned abroad and the goods which we have shipped abroad on balance shall be paid for when due. As the above figures indicate, our shipments abroad in each of the past two years were about $800,000,000 more than what we received from abroad. Our foreign customers must find some way of settling for that balance. No customer, whether individual or nation, can continue indefinitely to buy more than he can sell without exhausting his resources.

It happens that most of the large nations with whom we do business are also debtors to American investors or the United States Government and payments upon the interest of those debts and partial payment of the principal must be made annually. The balance of those payments, which are classed with the "invisible exports," can only be settled in three ways. They must be paid in gold, in credit, or in goods. During the war we took a large share of the sums due us in gold, a situation which has persisted for years since the war, until now we have the largest share of the world's available stock of monetary gold. Further settlement of large international balances in gold is impractical. Some nations, notably England, have had their gold reserves drawn down to less than a normal working basis for banking purposes and further payments in gold are likely to be restricted.

We may accept the balance of payments for our exports in credit, to be sure. But we have already taken foreign obligations to the extent of $17,500,000,000 and nations having an adverse trade balance with the United States cannot go on indefinitely paying in credit. Credit, after all, is merely a deferred payment in goods. It all boils down to the plain fact that we must look to payment in goods for the balance of our future sales abroad. And not only that, but we must expect to receive also in goods interest payment and payments on account of amortization of debts due. In other words, then, if we are to collect for sums due us from abroad we must anticipate a period of years of adverse trade balance. That is to say, we must expect to see a long period in which our exports of merchandise will be less than our imports.

This constitutes a radical departure from our traditional trade tendencies, but it is one of the consequences of being a creditor nation. It need not necessarily prove a depressing influence on domestic business. For years prior to the war England ran an unfavorable merchandise trade balance and prospered under it. The excess of merchandise imports into England each year was balanced by receipts in the shape of invisible exports. Large sums were remitted to English investors as interest on loans abroad. British shipping companies, banking concerns, and insurance companies were receiving payments for services rendered to the world and in these and other services the balance of payments was effected.

TARIFF BLOCKS PAYMENTS

THAT IS substantially the situation that faces the United States at this time. We have seen that international balances must be paid in goods. Now consider the fact that the tariff policy of this country is one of protection for our industries. In effect a high tariff wall is being erected to prevent foreign competition. The inconsistency of our position is that we are demanding payment in goods and closing the door to acceptance of those goods. Now not all of the goods that we import from abroad compete with American industry and the products of American labor. Under normal conditions we import such raw materials as coffee, rubber, sugar, petroleum, and other raw materials of which we either produce very little, or else produce insufficient for our own requirements. Our tariff policy is directed rather against imports of goods which compete with American products, and about 20 per cent of what we import comprises such manufactures. Free trade in

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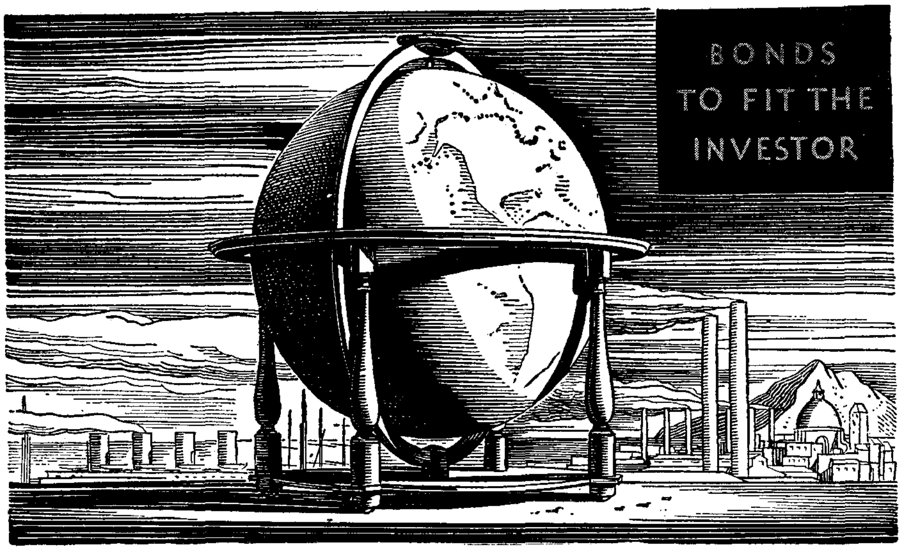
such items might prove disastrous to American manufactories and anything that tended to drive such producers out of business might be fatal to our safety in time of war. But there the problem stands: either accept payment in goods, or run the risk of not accepting payment at all.

This, then, is what has brought the entire issue of international debts to the front again. Our industries are stifled by the world-wide economic depression and yet our people are substantially insisting on payment of interest on sums loaned abroad in the form of goods. Paul M. Warburg, former member of the Federal Reserve Board, and now one of the outstanding figures in American finance, declared recently: "Is it not to be hoped that even the blindest among us may now begin to see that our prosperity is interlocked with that of our neighbors and customers, and that it would be more profitable for us to be generous to them than to press our advantage to the point of undermining their stability? Is it not as plain as day that America, the biggest seller of goods amongst the nations of the world, cannot maim the buying power of Europe, the largest purchasing unit, without hurting herself?" Erecting a tariff wall, forcing them to find money to square their debts rather than paying in goods, is it any wonder that Europe's purchasing power broke down?

U. S. MONOPOLIZING GOLD

OUR FOREIGN investments take two broad forms: first, the $11,678,000,000 that is owing the United States Government, mainly accrued during the war. Second, the $17,500,000,000 odd of private advances, mostly made during the post-war reconstruction period in order to enable Europe to get upon her feet again. To orient this debt, let us consider that this $11,700,000,000 of so-called Allied debt is being paid in combined installments of principal and interest in the amount of about $250,000,000 per annum, running for a term of sixty-two years in most instances. This annual tribute is a comparatively small sum when set beside the total public debt of the United States of about $16,000,000,000, and is an item equivalent to about one-twelfth of our total Federal tax receipts each year. It is a sum equivalent to about one-tenth of our income tax receipts and is only about half of the amount by which we have reduced our own debt annually in the past four or five years. To cancel these debts in their entirety would require only a little slower policy with respect to our debt redemption in order to make its pressure invisible upon the United States tax burden.

Now let us examine the contrast with our principal creditor abroad, England. The total national debt of the United Kingdom is equivalent to about $36,600,-



MERCHANT AND
BANKER TO THE WORLD

TAPPING vast resources of raw materials throughout the world and developing new markets in distant lands for its manufactured products, the United States spans the seven seas with its flow of surplus capital and commodities.

With about 6 per cent of the earth's population, this country's share in world production is approximately—two-fifths for coal, iron, steel, lead and zinc; one-half for copper and cotton; two-thirds for corn and petroleum; and over four-fifths for automobiles.

The United States sells to foreign buyers 15.8 per cent of the total exports of the world. During 1930, our exports approximated $3,840,000,000. Investments in foreign securities were an important factor in balancing this huge volume of exports with about $3,000,000,000 worth of imports.

More than $12,750,000,000 worth of such investments lie in the nation's strong boxes, and these are being increased at the rate of about one billion a year. Foreign government and municipal bonds account for most of the total.

The international flow of finance expands our foreign markets and stabilizes domestic business by forestalling excessive imports. Halsey, Stuart & Co. has taken part in balancing America's ledger of foreign trade and finance—at the same time providing reliable channels for investment to the American public. The careful standards of appraisal to which foreign and other offerings are subjected are set forth in our booklet, *Choosing Your Investment House.*

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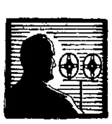

Every Wednesday evening you may increase your knowledge of sound investment by listening to the Old Counsellor on the Halsey, Stuart & Co. program. ◆ Broadcast over a Coast to Coast network of 38 stations associated with National Broadcasting Co. ◆ Music by symphony orchestra.

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