

Cabinet in a cursory way, the President does not assume the function of prime minister—unquestionably his and his alone under the Constitution—and interpret to the country, in terms which would be understood by every man and woman who keeps accounts, the theory on which these estimates are prepared. Congress, viewing the entire performance with suspicion, understands that the responsibility for the appropriations will finally be laid on its back, and so fights the Administration instead of cooperating with it. Tired of economy of the penny-wise stamp, it is only too apt to turn pound-foolish. The result is waste of time, waste of money, waste of work, and almost complete popular ignorance of how the Federal Government raises its revenues, what it buys with them, and the reasons of its policy.

A precise path out of this morass is yet to find, but the encouraging fact is that this Administration apparently knows where it wants to go and has started on its way. There is gloom because Chairman Sherley of the special Budget Committee, and Chairman Fitzgerald, of the Appropriations Committee, hold to two opposing solutions of the rearrangement in House committees necessary to operate a budget system. Mr. Fitzgerald would go back to the old scheme of a gigantic and all powerful Appropriations Committee, supplanting the six or eight committees now moulding the appropriation bills. Mr. Sherley would use the existing committees for working out details, while a Committee on Estimates and Expenditures would "report to the House the amount of revenue properly available for appropriation for the next fiscal year, and apportion the amount to the several appropriation bills." Inasmuch as Mr. Fitzgerald means Tammany in the House, it is not surprising to note that this member stresses economy and almost dictatorial, unquestioned power in few hands, after the fashion of Mr. Cannon, an endorser of his scheme; whereas Mr. Sherley, as befits the man of wider outlook, emphasizes that what he is after is "forcing consideration by the Congress, and through it by the country, of totals. That is the important thing that must be brought about if you are to have a reform."

When political exigency and common sense happen to demand the same thing at the same time, weak men frequently succumb. The Wilson administration has effected the establishment of such long-needed simple businesslike devices as the Federal Reserve Board and the Interstate Trade Commission. Now that half of its life is over, a deficit inevitable existing methods of legislating supply

idea the biggest single idea that is at once in the air? Great as have been the appeals of the Administration to business, large and little, not one will strike home as pleasantly as the inauguration of business methods in the conduct of the nation's finances. Unfortunately, however, there is less to be lost by failure along this line than there is to be won by success—and in the budget for 1916 which the Democratic National Committee, or whoever advises the President, is preparing, this truth is being clearly noted.

Futile War Indemnities

THE whole financial burden of the European war is finally to be saddled upon the vanquished; so we are told by eminent spokesmen for each party to the conflict. According to the French economist, Yves Guyot, writing in the February *North American Review*, "The Allies will simply estimate their outlay caused by the war, and the loss occasioned by the destruction of property, and then call upon Germany and Austria to foot the bill." German intentions seem to be somewhat less modest. Besides securing reimbursement for outlays, they mean to assess punitive damages. Accordingly it would appear that however the war may turn out, the administration of indemnity is sure to occupy an important place in public finance throughout the next generation, if not for a longer period.

When a private person undertakes to collect damages from those who have wronged him, he is likely to have an eye to the practicalities in the case, as well as to the equities. It is not worth while to sue for more than the defendant can pay. And the same rule holds for international relations. If the war ends before August, it will have cost the Allies, in direct outlays and in loss of property, at least ten billions—more probably fifteen billions. If it lasts another year, the cost to the Allies will have amounted to thirty billions. The cost to the Teutonic powers may be put at a decidedly lower figure, perhaps at one-half the cost to the Allies—at any rate so long as most of the actual fighting is carried on beyond the German boundaries. Now, what are the chances of collecting from Great Britain and Austria sums ranging between fifteen and thirty billions if the Allies win, or of collecting eight to fifteen billions from the Allies if the Germans win?

An indemnity may be paid out of hand, through funds raised by taxation or by the sale of bonds at home or abroad, or it may stand as a long-time obligation between governments, to be liquidated gradually. It is self-evident that no very consider-

state engaged in it will have as its first purpose the rehabilitation of its industry and trade, and this purpose would be defeated by excessive taxation. The total annual private income of the German Empire did not, before the war, exceed ten billions of dollars; the corresponding figures for Austria-Hungary may be placed at five billions. The private income of both powers will have undergone a notable shrinkage during the war; to place the total at thirteen billions would probably be to exaggerate it. Upon this thirteen billions the sustenance of 120,000,000 people will be a first charge. To extract every year for indemnity purposes one billion out of the thirteen would be a remarkable achievement of the most ruthless finance.

The expedient of raising indemnity funds through loans is more practicable. At the close of the Franco-German War France proved to have sufficient free capital to take up a billion dollar indemnity loan, and the population of France was less than a third of that of the Teutonic allies to-day. It must, however, be borne in mind that Germany and Austria are putting their resources to a strain incomparably greater than that undergone by France in 1870. It is hardly possible that any large amount of free capital will be found in Germany and Austria at the close of the war. To be sure, the two states will still have over a hundred billions in private wealth; but how can any large part of this wealth be converted into funds available for international payments? German citizens owned some six billions in foreign investments before the war; perhaps they will still own five billions when the war is over. They might sell such holdings and use the proceeds to take up shares in an indemnity loan, if they choose; but why should they choose to do so? Or funds might conceivably be secured through the sale to foreigners of part of the fixed capital of Germany—its mines, lands or factories—if foreigners could be found who cared to invest heavily in a country where taxes might be counted on to absorb much of the net returns from property. No one who attempts to define the conditions that must be met before a domestic indemnity loan could be floated can cherish any illusions about recovering the cost of a great war in this way.

The case for a foreign loan is not much better. We are assuming that the indemnity sought will be large—ten billions, at least. What would be the probable course of shares in a German indemnity loan of such magnitude in the markets of London, Paris and New York? Security against repudiation would consist solely in the assurance that the

and able at any time to force Germany and Austria to meet the imposed obligations. Such assurance cannot of course be given. Accordingly an attempt to float a vast foreign loan would be foredoomed to failure.

There remains the possibility that the indemnity may take the form of obligations between the several nations as such. Germany and Austria might be obligated to pay, say, two billions to Belgium, a billion to Servia, three billions each to England, France and Russia. By this method resort to unwilling financial markets would be avoided. Each of the creditor states would receive into its public treasury the interest on its share in the indemnity, and ultimately the principal. But here again arises the difficulty of possible repudiation. Only by holding intact their military organization could the victors compel the vanquished to keep up the payments.

There is no possibility of exacting from a conquered nation an indemnity in excess of the amount that can be raised at once through taxation or through a domestic loan, unless the conqueror is prepared at any time to fight the war over again, upon the first sign of a tendency toward repudiation. The only way to collect ten billions from Germany and Austria would be to maintain a military occupation of those countries through ten years at least, and under a military occupation it is doubtful that industry and trade would revive sufficiently to yield any considerable revenue towards the indemnity charge. Moderate indemnities—four or five billions if Germany wins, two or three billions if the Allies win—are possible; but it appears fairly certain that in the end each nation engaged in the war will have to accept her immaterial gains—whatever these may be—as the chief offset for the losses she has been forced to endure.

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Making a Constitution

IN 1912 the Progressives in their New York State platform proposed so much that was possible only by constitutional amendment that they demanded a constitutional convention. Republicans and Democrats, to whom woman suffrage, initiative, referendum, recall and short ballot were at that time fearsome things, looked upon the convention as a happy place to which all such controversial matters could be postponed and side-tracked. So their platforms mentioned a constitutional convention with hazy approval.

The Democrats, so the rumor goes, fell to calculating. They made up their minds that it would be better to have this convention at once, while their opponents were safely split, than to wait until 1918, when it would normally be due. Therefore they took up the project, and last spring hastily ordered a costly special election.

A third of the voters went to the polls, and by a vote almost evenly divided authorized the calling of the convention. But when November came the Republicans, who had never wanted the convention anyway, found themselves in complete control of it.

In its composition the convention is a strange mixture. Some delegates grotesquely unfit to cast votes in such a body, many political hacks to whom the \$1,500 salary is well and favorably known, a few delegates, such as Sheehan, Barnes, Ahearn and Haffen, with shinily sinister records, some very able, disinterested and unselfish men. Also a prospect, since the convention has power to fill its own vacancies, that more unselfishness and ability will be added. The average ability is low enough. The stars, however, were better chosen than the supers. Stimson and some of the other Republican delegates at large are of the right size. Wagner and Smith can and will do much to keep the Tammany men out of mischief. And with one advantage, all its own, the convention does start—superior equipment and information, thanks to the excellent official commission which has in advance compiled and digested appropriate data for the delegates' use.

A gratifying public interest, keen enough to send a third of the voters to the polls in spring, just discriminating enough to choose in autumn such delegates as have been chosen, is not overwhelmingly gratifying. Out of such a convention, where Tammany has to be kept out of mischief, where ultra-conservatives have to be converted, where the successful radicals will be led by Mr. Root, noth-

On the list of reforms which will seriously be considered is municipal home rule. It seems assured of acceptance. The proposal is to give cities the right to draft and adopt their own charters, to give them full powers, subject to general laws, to manage their own affairs without running every few minutes to the legislature for specific permission to do every little thing. Many states have for years allowed this latitude to their municipalities. Until very recently it seemed out of reach for the cities of New York.

The short ballot will stir up the rural doctrinaires, but most of the delegates give at least lip service to the general principle, and the main fight will be to prevent the emasculation of the amendments. The proposal is to make the governor and lieutenant-governor the only elective state officers and impose upon the governor the duty of appointing the now elective secretary of state, treasurer, comptroller, attorney-general and engineer-and-surveyor without confirmation by the senate. The politicians will fight to save senatorial confirmation, and to keep the comptroller, who has considerable patronage, on the elective list. It is quite possible that there will be a substitute plan for such a thorough re-departmentalizing of the state administration that the present minor elective officers will disappear.

New York elects its judges, with results that are fairly bad in New York City and fairly good in the other half of the state. The city bar associations are solidly in favor of making the judiciary appointive and are reinforced by the short-ballot advocates, who point out that the appointive way gives not only superior judges but superior popular control over the bench as distinguished from politician-control. The agitation is too recent to have developed much momentum and there is not complete harmony as to the constructive proposals. One original scheme which may find acceptance as a compromise makes it the duty of the governor to "recommend" judicial candidates subject to confirmation or substitution by the people on a non-partisan ballot, whereon the governor's nominees are indicated by the words, "Recommended by the Governor." The expectation is that this plan would result often in unopposed, unanimous elections equivalent to straight appointment.

These projects, excellent as reforms in mechanism or administration, measure the utmost that may be expected from the convention. There is