

the execution of the Treaty of Versailles, Germany's signature to her most solemn engagements is bound soon to become worthless. The will and the ability of any nation to redeem its promises, particularly when those promises condemn it to a prolonged and exhausting purgatory of self-denial and unremunerative labor, depend upon its self-possession. In the case of Germany ever since the armistice was signed, there has existed an effective conspiracy in all the Allied countries to destroy what self-respect the Germans had managed to retain at the end of the war and to prevent them from associating any dignity or security of position with their experiment in republicanism and democracy.

Lloyd George a year or so ago compared Germany to an invertebrate animal, but invertebracy, sullenness, suppressed rage, cynicism and moral disintegration are the inevitable result of being lectured, brow-beaten, bullied and threatened with unimaginable penalties whenever she has a difference of opinion with her conquerors. At one moment she is held up to reprobation as congenitally untrustworthy because she does not keep her promises. At another moment she is chided by such sound moralists as the *New York Evening Post* because she hesitates to promise the fulfillment of a contract the execution of which she believes to be impossible. If politicians and journalists in the Allied countries want to bring back economic stability and political appeasement to a distempered and tortured world, they will soon have to abandon this cheap and popular form of sport. It creates a state of mind in Germany and out of it which renders such crimes of violence as the proposed occupation of the Ruhr by the French army ultimately inevitable.

## Toward European Recovery

**M**AY it be assumed that Europe has reached her lowest depths of postwar distress and is now gradually, though almost imperceptibly, moving upward toward order? It would be rash to disregard the danger that the Silesian question may lead to an explosion that will plunge the whole continent into hopeless chaos. Nevertheless, there is now a much more hopeful tone in the comment of competent observers of international affairs. The indemnity terms, while still requiring much further revision in order to make the capital value of the indemnity available as a financial asset, do nevertheless leave to Germany a zone of shelter within which she can set to work on the repair of her economic structure. The motive of extracting

money out of Germany has become sharply differentiated from the motive of ruining Germany, and British and Italian policy has repudiated the latter motive. American influence, so far as it counts at all, is on the same side. That leaves France isolated in her policy of crushing and dismembering Germany. Lloyd George's criticism of Polish policy in Silesia, with its implied criticism of the French policy which supports Polish imperialism, merely gives public expression to a relation which has long been evident. France, as an economically self-contained nation, might view with indifference the decay of Central Europe. England must live by trade, and trade can not flourish so long as Central Europe is the prey of civil war and anarchy.

The indemnity settlement and the clearing up of British policy are two important steps toward European recovery. But no very rapid progress can be made until the several nations have brought order into their financial and currency systems. England may possibly bear up under her national debt of nearly forty billion dollars. British industry and commerce have exhibited unimpaired vigor since the war, and may bring into the country wealth enough to make possible the payment of two billions of interest annually, besides some surplus for reducing the principal of the debt. Leaving out of account the Balkanized lesser nations of Central Europe, Germany stands at the other extreme. She has a domestic debt of nearly fifty billion dollars—together with an indemnity of over thirty billions. Nothing can be plainer than the impossibility of paying the interest and principal of a debt of this magnitude. A nation whose private income can not now exceed seven or eight billions in gold, and which can not be expected to exceed twelve billions within the next decade, can not possibly pay four billions in interest on its debt. There is no known fiscal expedient capable of collecting from one third to one half of all incomes, big and little. In one way or another, much the greater part of Germany's domestic debt will have to be written off.

The financial position of France is much less unfavorable, yet it is intolerable. The French debt, if we include uncovered paper issues of every kind, can not be much less than fifty billion dollars, face value. Against this sum may be set whatever France may recover from Germany. According to an agreement of the Allied Powers, which we believe still stands, France receives fifty-one per cent of the indemnity. That would give her something over fifteen billions, if Germany ever pays in full all three series of obligations she has formally assumed. But under the terms of her agreement with

the Allies, Germany will never pay full interest on Series C until her export trade reaches the improbable level of six billion dollars a year. We are extremely sceptical about the financial reality of Series C. We doubt that Germany will ever be held to pay more than the interest and principal of the first two series, aggregating twelve billion and a half. Of that sum, France will receive not more than six and a third billions of dollars, an insignificant offset to fifty billions of debt. Say that France receives from Germany enough to cut her debt to forty billion dollars. Can she pay the interest on that sum? Two billions would be required, out of a national income that will hover around ten billions when European trade becomes normal.

The condition of Italy is apparently more favorable, but only apparently. Her debt does not exceed twenty billions. Her per capita debt is little more than one-half that of France. But the per capita earnings of the Italian population are much lower than those of the French. France has gained vast possibilities of industrial development through the annexation of Alsace Lorraine, and her colossal colonial domain contains much promise of future wealth. Italy's acquisitions of territory through the war have a sentimental rather than an economic value to the state. It is difficult to see how the Italian treasury can possibly raise the billion a year required for interest on the debt.

But all these values, it may be said, are artificial. Germany's domestic debt is not fifty billion dollars, but two hundred billion marks, and the mark is worth about one and three-quarter cents. Reduced to gold at present rates of exchange Germany's domestic debt is \$3,500,000,000—not a crushing burden at all. France owes not \$50,000,000,000 but 250,000,000,000 francs, and the franc is worth eight cents and a half. At present exchange the French debt is about twenty-one billions of dollars. The Italian debt is about five billions, on the same basis.

All this simply means that if the values of the mark, the franc and the lira could be fixed somewhere near their present level, the debts of Germany, France and Italy would be fairly proportionate to the capacity of those nations to pay. The markets which have fixed exchange values have incidentally passed judgment on what these billions of promises are worth. Why not cut them down, then, in some such ratio?

That would be repudiation, a word from which every statesman shrinks. But the end in view, the paring down of unpayable obligations, every real statesman must regard as one that must somehow be attained. If it can not be attained directly with-

out too great a break with tradition can it not be attained indirectly?

The European governments have learned all there is to know about the art of inflation. They can at will keep the paper mark, franc and lira about where they are, paying their paper obligations in paper that does not rise too high. They have invented a "gold mark" for the purposes of the German indemnity. They could also invent gold francs, gold lire for purposes of foreign trade, for customs duties and for voluntary use among business men tired of a fluctuating currency. Eventually the market would fix some sort of par of exchange between the gold issues and the mass of paper issues, say one to twelve for the mark, one to four for the lira, one to two for the franc. This par of exchange could finally be given official recognition with the result that Europe would find itself on a basis of stable exchange, with debts reduced to the bearing capacity of the several nations.

We are aware that such a process apparently does grave injustice, especially to those who invested in government bonds before the war. They suffered injustice, it is true, but the injustice was done by the war makers, who loaded the nations up with debts they could not carry. The repudiation began to take place when the paper value of the sums paid in interest departed from the gold value. It is the duty of governments to undo the effects of repudiation so far as that is practicable. It is not practicable, however, to undo it entirely. What is practicable is to establish a new basis on which the currency and fiscal machinery will work without incessantly disturbing the whole scheme of production and exchange.

## The Times and the Lusk Bills

FOR shameless partisan misrepresentation of facts and motives on an important public issue, nothing has happened in American journalism worse than the manner in which the New York Times has misrepresented the contents of the Lusk educational bills, and the motives of those who opposed them. Both in its news columns and on its editorial page, it has pretended that these are sedition bills, directed against no one except those who "want to change the form of our government otherwise than by amending the Constitution in the orderly and lawful ways which that document recognizes and provides." This is a downright misrepresentation of the facts. For the first Lusk bill contains not only provision against teachers who advocate illegal violence—a useless provision, since the previously existing law amply provided