

Can Europe Pay Us?

BY JOHN PARKE YOUNG

*The factual case against cancelation or revision of War debts
—and the psychological in favor*

HITLER has said that the prospect of Germany's ever making the final reparation payment of \$714,000,000 arranged at the Lausanne Conference is not worth three marks. In the Allied nations, however the Lausanne accord is hailed as the final and amicable settlement of a long standing controversy. Its predecessor, the Young Plan, was received in the same manner.

The "gentlemen's agreement," whereby the nations have agreed not to ratify the Lausanne settlement until the United States shall have reduced the War debts, has not been kindly received in the United States, nor has it improved the chances of debt reduction. The position of the United States, as emphatically reiterated by President Hoover in his letter to Senator Borah, is unchanged — the War debts are to stand on their own feet and not become mixed with reparations, although he hinted in his acceptance speech that "some other tangible form of compensation" than gold might be acceptable. While members of Congress and a large part of the American public have been antagonized by the attempted pressure, a substantial number of people in this country are and always have been def-

initely in favor of cancelation or reduction.

A fundamental difference exists between reparations, a penalty imposed upon defeated Germany, and the War debts, the result of money loaned by the United States to friendly nations. Reparations are based upon the idea of War guilt which Germany was forced to accept in the peace treaty. For her sins Germany has already paid some nine or ten billion dollars, depending upon who makes the computation. Money loaned to European nations by the United States Government was supplied by the American public and is still owing the public by our Government. The question at issue is, can Europe pay, and if so, should she pay? First let us consider reparations.

AT THE Peace Conference in 1919 the Allied nations were unable to agree upon the reparation bill to be presented to Germany. Extravagant sums were proposed, far beyond Germany's capacity to pay. One group wanted the amount left elastic, so that as Germany recovered from the War, reparations could be adjusted accordingly. The treaty finally provided that a Reparation Commission be established and

that this commission determine what the total bill was to be and how it was to be paid.

The Reparation Commission accordingly announced in April, 1921, that Germany should pay the equivalent of \$32,000,000,000. Serious students knew that this enormous amount would never be paid. Germany was to begin payments immediately at the rate of \$750,000,000 a year.

Germany paid upon this basis until 1923, but with the greatest difficulty. She paid in cash, in coal, in ships, in railway equipment, in live stock and even in works of art. In order to get the necessary money Germany printed quantities of paper marks, with consequences well known. The mark circulation rose to the unpronounceable figure of about 500,000,000,000,000 billions at the end of 1923. The value of the mark — twenty-four cents before the War — declined accordingly to a point where it took 100,000,000,000 marks to buy a newspaper. The chaos was extreme and business came almost to a standstill.

In January, 1923, Germany was in default on reparations. France and Belgium promptly marched their troops into the Ruhr valley and took possession of this rich part of Germany. Great Britain had vigorously opposed such a drastic measure. Germany was desperate but no action was possible. Throughout all Europe conditions were greatly disturbed. Bread riots and other forms of violence reflected the intense suffering and low morale of the people. The post-War period undoubtedly saw more real suffering among the non-combatants than the period of actual conflict.

The United States during these troublous times had carefully kept its hands out of European affairs,

with the result that Germany was bitter toward us. The idealism of President Wilson seemed to her merely empty words. France charged us with deserting Europe at a critical stage. We had come over, taken the glory of winning the War, and gone home without helping to clean up the mess. Great Britain felt that we should throw our influence with her in her efforts for moderation. In the United States political squabbles kept us from taking any active part in solving these problems so intimately related to our own well-being.

THE United States early declared against indemnities in principle, and at the Peace Conference refused to accept a share of reparations. From our standpoint, therefore, the reparation problem has always been distinctly a European problem. We had no member on the Reparation Commission, although we did have an observer who sat with it.

In December, 1922, Secretary Hughes made a speech in New Haven in which he declared that the reparation problem was a financial one and should be taken out of the hands of diplomats and politicians, and turned over to a group of experts who should decide what Germany was able to pay and how she might pay. Such a solution, he argued, would be to the interests of all nations.

Europe, looking anxiously to America, seized upon this statement of our Secretary of State as an offer of help. America at last was willing to cooperate, provided reparations were taken out of politics, a condition not easy to satisfy. As the failure of the Ruhr expedition became apparent, discussions between the United States and Europe led to the appointment of the Dawes

Committee of experts. The three American members were private citizens but served with the blessing of our Government.

The Dawes Report wisely did not attempt to determine the total amount of reparations that Germany should pay, but undertook to decide merely what Germany could pay each year in the immediate future. The Plan provided for small payments the first year or two, working up to \$625,000,000 the fifth year, 1929. The Plan also provided for the reform of the German currency, among other things. The Dawes Report was accepted by the nations involved, and promptly put into force. General recovery throughout Europe followed rapidly.

The Dawes Plan was recognized at the time as a temporary measure for two reasons. It provided no end to reparations, the total having been left indefinite in the interests of harmony, and it set up an elaborate system of supervision over Germany's financial affairs. This was offensive to German pride. Finally, in 1928, the Commissioner of Reparations, an American, said it was time Germany be told what was expected of her and that she be allowed to run her own show. The Allied nations and Germany agreed that a new committee be appointed to prepare a final solution to reparations.

Accordingly the Young Committee met in Paris in 1929. As a result the payments were considerably scaled down, and were to continue until 1988, the average yearly payment amounting to \$474,000,000.

The Young Plan had scarcely begun to function when business depression seized the world. Germany's revenues declined, as did the country's foreign trade. German finance began to creak

under the load. Germany had borrowed heavily abroad, especially in America, in the years following the Dawes Plan, and now had large foreign payments to make in addition to reparations. These foreign borrowings amount to between four and five billion dollars, about half of which, unfortunately, are repayable upon short term. The money has been invested, however, in long term undertakings, both public and private. The merchant fleet has been reconstructed, many industries modernized, and towns have carried through programmes of public improvements. When the foreign creditors, financially involved at home and nervous over Germany's condition, asked Germany to remit, she was unable to meet their demands. She exported some of her gold reserve, but this did not suffice. Great Britain, to her own undoing, loaned Germany money in the attempt to hold things together.

Suddenly, in June, 1931, President Hoover announced that the United States would postpone for one year all payments of interest due it on the War debts, provided the European nations would similarly postpone all their intergovernmental payments. The Hoover moratorium was soon an accomplished fact, taking effect the first of July of last year.

The recent Lausanne Conference was called to determine what should happen when the Hoover moratorium expired. The agreement finally reached was that Germany should deliver \$714,000,000 in German Government bonds to the Bank for International Settlements as complete payment of reparations. After three years the bank should market these bonds in amounts and in such manner as it sees fit. The nations, however, have agreed not to

ratify this arrangement until a "satisfactory settlement" has been reached with the United States regarding the War debts. This is where we stand at present.

THE United States has from the first held that the War debts are a separate matter from reparations. The debts are not indemnities, but are the result of money loaned by the United States Government direct to European Governments during and after the War. The money came out of the pockets of the American public, and was used to pay various expenses of the European nations, some of the expenses contracted before we entered the War, some during our participation in the War and some after the Armistice. The sum originally amounted to \$10,338,000,000. A substantial portion of the present national debt of the United States, represented by Liberty and Victory bonds, owes its origin to borrowings by our Government from the American public, which were re-loaned to European Governments.

After the close of the War the nations one by one made arrangements with the United States for the repayment of these loans. In these refunding agreements the United States reduced the interest payments to such nominal figures that the effect was to cut the debts roughly in half. In other words, the amount actually to be paid is about half what it would have been if rates of interest which these Governments would have to pay on new borrowings were applied. To put it another way, if the principal of the debts were cut in half, and fair market rates of interest applied to what is left, the countries would pay on the average just about what they are required to pay at pres-

ent. On this basis Great Britain pays some seventy per cent of her debt, France about forty per cent, and Italy twenty per cent.

Ever since the close of the War Europe has been endeavoring to bring pressure upon the United States to cancel the debts, and to link them to reparations. The United States has taken the position that the debts are not excessively burdensome, that they represent business transactions, that Europe is well able to pay and therefore should pay. The United States has steadfastly refused to participate in a conference to discuss debts and reparations, including the Lausanne Conference, knowing that such conferences would be used to present us with a united front for debt cancelation.

The nations have declared that they must have reparations from Germany if they are to pay their debts to America. The United States is thus made to appear as the stumbling block to European settlement. (The original reparation bill was more than three times the War debts.) Is it not ironical that the United States, the one nation that opposed the principle of indemnities, and refused to share in them, should now be held up as responsible for their existence?

The arguments for and against cancelation of the debts are briefly as follows. It is said that the War was a common cause, as much our War as Europe's, that Europe was fighting our battles without us for a long time, that the American loss of life was slight, and that, therefore, if Europe contributed men, we should contribute dollars.

The War, however, was not our War in nearly the same sense that it was Europe's War. Our territory was not invaded, our people were not killed, nor were we threatened except in a re-

mote sense. The Atlantic Ocean offered good protection from any serious attack had a victorious Germany, perchance, been so foolhardy as subsequently to engage us. We joined the War on the Allies' side primarily because we disbelieved in the German military system and all it represented, and because German stupidity forced us in to maintain our self-respect. The United States did not have nearly as much at stake as did the European nations, including even the neutrals. Yet the contributions of the United States in men and money were substantial, and without our help the War would not have been won. Furthermore, the United States did not receive territorial gains, nor participate in the distribution of the spoils.

Cancellation is urged upon the ground that the debts constitute a crushing burden upon the debtor nations, and that these nations are unable to pay. In order to gauge the burden, figures are necessary. France is due to pay the United States the present year \$50,000,000. The amount will increase gradually to a maximum of \$125,000,000. Total revenues of France, excluding reparation receipts, are about \$2,000,000,000, which means that present debt payments represent only 2.5 per cent of the budget. Expenditures for armament are about seven times what France is now paying the United States. Expenditures to reorganize military defenses on the northern and eastern frontiers are twice the debt payments. The foreign trade of France, merchandise exports and imports, amounts to about \$4,000,000,000, a little less than half of which represents exports. Debt payments are thus 1.25 per cent of the foreign trade. It can be seen that the debt to America is well within the ability of France to pay, and the burden

can in no sense be said to be a crushing one.

Great Britain is due to pay America \$160,000,000 a year, increasing to a little over \$180,000,000 a year. The total revenues of the British Government amount to about \$4,000,000,000 a year, of which about \$500,000,000 is spent for military purposes. The foreign trade of Great Britain has averaged about \$10,000,000,000 annually. Debt payments thus amount to about four per cent of the budget and about 1.7 per cent of the foreign trade. Great Britain also is well able to pay, although not without sacrifice.

Italy pays the United States \$15,000,000 a year, the amount increasing to a final payment of \$81,000,000 and averaging for the entire period about \$35,000,000. Revenues of the Italian Government have amounted to approximately \$1,000,000,000 a year. Military expenditures take about \$300,000,000 of this sum. The foreign trade of Italy has been averaging about \$1,800,000,000. It can be seen that military expenditures are about twenty times present debt payments, which are about one-seventieth of the annual budget. Debt payments do not impose any unreasonable burden upon Italy.

The debt payments due the United States are less than the expenditures of American tourists each year in Europe. They are only slightly greater than the money American immigrants send back to their home countries, and only slightly more than the freight payments we annually make to foreigners.

Another reason often advanced for cancellation is that the debts will have to be paid by the export of goods or services to America, and that these goods will compete with our own goods in our own market. If this argument had

merit we should logically cancel our private investments abroad as well, since the interest on them must also be paid in goods. War debt receipts are a very small percentage of our import trade. Imports of goods and services average about \$6,000,000,000 while debt payments due the present year amount to only about \$250,000,000. It should be clear that a nation is never impoverished by the receipt of goods any more than an individual is impoverished by the receipt of income. Our high tariff is of course inconsistent, and should be reduced on other grounds as well.

The argument that debt payments can not be transferred may be answered in the same way. Foreign investments and money loaned abroad privately amount to several times the War debts, and whatever transfer problems there may be apply to one as much as to the other. Yet we hear little about the cancellation of private debts because of transfer difficulties. The War debts, moreover, antedate most of the private debts. Furthermore, the War debts, as already noted, are a very small fraction of total foreign payments to America. The matter of the transfer of capital between nations is a much broader problem than that of the War debts and involves the functioning of the gold standard.

While debt payments are more of a burden during depressed times than normally, which fact has been recognized by the United States in the postponement of payments, cancellation can not validly be urged on the ground that Europe has not the ability to pay, that the debts constitute an excessive burden — all debts are a burden — or that payment is economically impossible or detrimental. The only argument for

cancellation that does not apply equally well to private debts is that of our contribution toward winning the War, namely, that we did not do our fair share.

THE War debts did not cause the depression, nor would cancellation restore prosperity. Depressions have come and gone for generations and have their roots in speculation and the inflation of values. Payments were halted a year ago, and yet the depression grew steadily worse. Since a large mass of people, however, have come to believe that in some way the War debts have a bearing upon the depression, cancellation might help to restore confidence, which is sorely needed. This, however, would not be of any lasting benefit. The moratorium a year ago was hailed with great optimism and followed by a revival of confidence, which turned out to be short-lived and of no permanent benefit. The depression can not honestly be laid at the door of the debts.

Cancellation has been urged by international bankers, inasmuch as, if the debts were canceled, private obligations owing America would thereby become better obligations and be more easily collected. When these bankers asked the President to cancel, his reply might well have been: "All right, gentlemen, you cancel yours and we will cancel ours."

Since the time when the debts were contracted the commodity price level has fallen substantially, or in other words, the purchasing power of gold has increased. We loaned cheap dollars and are being paid back in dear dollars. This would be a valid reason for making an adjustment were it not for two facts; first, the debts have already been scaled down by about one-half, and

second, the United States Government is unable to scale down its Liberty bonds and other obligations which were issued to raise money to loan to Europe. The United States national debt remains a gold obligation. Furthermore, a general adjustment of indebtedness to meet price level changes, although desirable, is not common practice nor feasible, and unless such adjustment applied to all debts, public and private, would be inequitable.

A legitimate case can be made for adjustment of the British debt into harmony with the more generous treatment accorded other nations. Great Britain settled first, and before the practice of substantial reduction had become established. Had Great Britain been less prompt in making settlement she probably would have obtained better terms than the thirty per cent reduction which she received. Great Britain was thought to have been better able to pay.

The principle of capacity to pay, which was supposed to have been applied in the debt settlements, was a vague, unreliable and unfair method. What is capacity to pay and who can measure it? Settlements actually were made upon the basis of expediency, although influenced somewhat by estimates of the wealth and prosperity of the countries.

Great Britain has large War debts owing her by foreign nations, but much of this money, such as that loaned to Czarist Russia, will not be repaid. In a general cancelation of debts and reparations Great Britain would neither gain nor lose very much, aside from the fact that reparation income is precarious, while interest on her debt to the United States must be paid regularly. Great Britain would, therefore, like to see

the bothersome question settled by all around cancelation. France and Italy would be glad to see the debts canceled because they can read the handwriting on the wall regarding reparations.

Inasmuch as Germany owes the Allies and the Allies owe the United States, this country oftentimes is pictured as receiving the money which Germany pays. The Allies are represented as being merely funnels directing reparations really to America. Cartoons and statements to this effect are obviously dishonest. Reparation money can just as consistently be pictured as going into the building of a new battleship or the maintenance of armaments, and the money which America receives be shown as coming from a tax upon the importation of American goods. In other words reparation receipts are merely one source of revenue and debt payments merely one item of expenditure. The two do not necessarily have any connection. Reparation receipts are substantially larger than debt payments. The ability of Europe to pay debts would be affected by a reduction of reparations in the same way as though any source of revenue were reduced. From the standpoint of ability to pay, debts and reparations are no more linked together than are reparations and armaments.

The payment of debts is not pleasant. No one likes to pay debts. Nor is their collection pleasant. We do not, however, care to be forced or cajoled by a great furor or by a "gentlemen's agreement," into cancelation when we can find little reason for this, aside perhaps from the furor itself. Psychologically the debts have come to receive much more attention than their size and economic effect warrants. Commercial debts owing the United States, as

already mentioned, are several times as large as War debts.

Nevertheless, we may as well recognize that the probabilities are that some adjustment of the War debts will eventually be made. They have become the source of a good deal of ill-will; practically all Europe honestly believes that the two questions are one and that the United States is mercenary, unreasonable and holding up business recovery.

Looking at the matter in this light, and forgetting the merits of the case, it is possible that a certain amount of good would come from further readjustment. If we could be sure that canceling the debts would end European squabbling and bring more sanity into international relations, the results would be well worth the price paid. Such a result, unfortunately, does not seem probable. Extreme nationalism can not be dissipated by a stroke of the wand.

Threnody

BY FRANCES HALL

Now pluck the autumn's last frail, oaten spray
And sit where pale leaves shimmer slowly down;
Pipe softly a sad tune to drift away
Across the hillside's frost-touched, lonely brown.
Remote is the little, red-roofed, vale-snug town
That holds her bright skirts from the chill blue sea;
High on the mountain's barren, wind-swept crown
Wake you a wistful ghost of melody.
The cold flocks huddle closely on the lea
Where summer's dancing lasses made such fun.
Now is the harvest in the granary
And mellow, kind, warm-breathing days are done.
Pipe, then, a song of winter's coming cold
And grief for gay, ephemeral things grown old.