

The League and the Underdog

AT the tenth Assembly of the League of Nations held last September the so-called Draft Convention for Financial Assistance received some preliminary discussion. It is now under further consideration by Committees of the League in preparation for its being brought up again at a later date. Yet the public pays little heed. It may be that the title of this proposal arouses no expectation of anything which could have interest for the generality. But whatever the reason may be, the prospect has received remarkably less attention from the Press than its signal importance deserves. For it represents one of the most important practical proposals which have ever come before the League of Nations. Let me, therefore, try to explain what it amounts to.

Since the conception of the League of Nations was first born, the question of what sanctions the League could employ whereby to enforce its decisions has been of vital importance. Yet it has been so difficult to suggest any convincing solution that there has been a natural inclination on the part of friends of the League—a tendency which is reflected in the terms of the Covenant itself—to push into the background this issue of how, in the last resort, the League is to enforce its will.

Some have thought that the formation of some kind of armed international force would prove, eventually, to be indispensable,—a view which has found its main adherents, I fancy, in France. The English mind has turned rather to the possibility of an economic blockade, which the other members of the League would undertake to use their authority and power to enforce against a Power whom the League had declared to be the aggressor.

The grave objections to an armed international force are quite obvious. Even apart from the recurrent expense involved in times of peace, it is difficult to suppose that the practical obstacles could be overcome. As for the economic blockade, it is open to the objection that it would involve on the part of members of the League, who might be but little concerned with the quarrel, a greater degree of belligerence than they would care to pledge themselves to in advance or to undertake when the time came. For in modern conditions an economic blockade, however limited in its scope, could scarcely be enforced by purely peaceful methods.

Now the great virtue of the Draft Convention for Financial Assistance is that it turns away from negative remedies to positive remedies, and, instead of endeavoring to visit punishment on the aggressor, limits itself to giving positive assistance of a purely pacific character to the injured party. Its details run as follows.

The Project of Financial Assistance proposes that a cut and dried scheme should be drawn up beforehand whereby the Council of the League would have power and authority to offer foreign financial resources with the least possible delay to the party in a dispute which it considered to be the aggrieved party. It is an essential of the proposal that the lines on which this financial assistance is to be given should be drawn up in the most definite possible manner beforehand, so that there would be no necessity to enter into negotiations with the several guaranteeing parties when a dispute was already on the horizon, and no doubts or unnecessary delays in according the actual assistance.

The project lays it down, therefore, that the Council of the League shall be given authority to issue an International Loan in the leading money markets of the world, guaranteed by the members of the League who enter into the scheme (for it is not necessary to the project that every member of the League should participate in it), in proportion to their normal contributions to the League. In order to add further to the financial security of the loan it is suggested that, in addition to the guarantees of the participant members of the League, each of which would be limited to a certain percentage of the loan, there should also be an over-riding guarantee given by the financially stronger members, each for a certain quota, so that in the event of any of the financially weaker members of the League defaulting in their guarantee the financially stronger countries would take over the liability. The League Loan

would therefore have, first of all, the guarantee of the borrowing party; behind this the guarantee of the various members of the League participating in the Convention; and finally, in the event of emergency, an over-riding guarantee on the part of the financially strong countries. Unquestionably, therefore, the loans to be issued would be of first-class character and capable of being floated at a reasonable price even in a disturbed atmosphere.

All this having been arranged beforehand—every party to the project having agreed as to what his quota should be, and the actual form of the necessary legal documents having been drawn up down to the last word so that the Loan could be launched immediately upon the Council coming to a decision—the Council of the League is then to have absolute discretion to afford this assistance not only in the actual event of war, but (to quote the actual phrase) “the financial assistance provided by the present Convention shall be given in any case of war or threat of war in which the Council of the League of Nations decides that, as a measure to restore or safeguard the peace of nations, such assistance shall be accorded to a high contracting party involved in the war or threat of war.” That is to say, the contingency in which financial assistance can be granted is not linked up with any of the clauses of the Covenant, nor with any definite criteria of aggression such as were drafted in the ill-fated Protocol. The present proposal is of a wider character. Very general discretion is given to the Council to afford financial assistance to any aggrieved party under threat of war, to whom it thinks it appropriate to give it.

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The main weakness of the scheme is to be found in a feature which is, I suppose, inevitable at the present stage of evolution of the whole working of the League of Nations; namely, in the provision that financial assistance can only be accorded by the Council by a unanimous vote, that is to say, unanimous apart from the parties actively interested in the dispute. From the practical point of view it would clearly be much better if such assistance could be afforded by some substantial majority, such as a two-thirds majority. For with international politics as they now are, there can never be a certainty that the parties who are actively concerned in the dispute may not have friends on the Council who may be secondarily interested and will use their position to obstruct action. Regarded as a first step, however, I daresay that the requirement of a unanimous vote may be wise, though the value of the scheme would be materially greater if action could be taken in response to a preponderating, though not unanimous, balance of world opinion.

The Draft Convention does not mention a specific figure for the amount of financial assistance up to which the Council is to have these discretionary powers. That is to be settled at a later stage. But evidently it will not be worth while to set up an elaborate machinery of the kind proposed unless some fairly substantial sum is in view. Let us discuss it on the basis of the maximum sum, disposable by the Council of the League under this Convention, being of the order of £50,000,000, or \$250,000,000. As we will show in a moment, this would be for practical purposes a very large sum indeed. But the actual burden which it might throw on any contributory guarantor would be extremely moderate. At 6% (for interest and sinking fund) the annual service on £50,000,000 would be £3,000,000 altogether; but even in the event of the recipient countries' defaulting for the whole amount, the burden would be divided between a large number of countries—so that the actual annual amount which, at the worst, a country would have to provide which was a one-tenth contributor would amount to no more than £300,000 a year, a very trifling sum for a Great Power, if the provision of it is capable of making a serious difference to the prospects of war and peace. On the other hand, £50,000,000 is a very large sum indeed—I should expect that much less would be required in any ordinary circumstances—in relation to the contingencies of anything but a very great and prolonged war. Let me illustrate this by a figure which may be unfamiliar and sur-

prising to most people, but which is, I think, convincing.

The whole of the amount borrowed by Great Britain during the late war in neutral countries—that is to say, elsewhere than in the U. S.—amounted from first to last to no more than £42,000,000. This was the aggregate of the whole amount of the loans which by all her efforts Great Britain was able to borrow in the neutral countries of Europe and elsewhere.

It is easy from this to appreciate the magnitude and the reality of the help which a provision of £50,000,000 would mean to any minor country which was threatened by war. Indeed, I venture to say that in many cases the possibility of such assistance would have a decisive effect and would compel the aggressor to bow to the will of the League of Nations.

AS between great powers, it is probably necessary to admit the impossibility of using to much purpose any weapons of this kind, or indeed any other kind of sanction whatever. For the prevention of war between Great Powers we must depend mainly, or entirely, upon moral forces and forces of opinion of a different kind altogether. But whenever there is a possibility of hostilities between Powers not of the first magnitude, the expectation of the Council of the League affording assistance on even a fraction of the scale suggested above might almost settle the matter. It would only be in cases in which the aggressor could overwhelm its victim by a sudden onrush, before there was time for any financial assistance to take effect, that this weapon would be of insufficient avail. Apart from such a contingency, a country of secondary size which could rely upon assistance of this magnitude would be at an overwhelming advantage as compared with a country which could not, and whose credit in the money markets of the world would be greatly diminished by the mere fact of the Council of the League having declared against it.

As between Balkan countries, for example, or minor Asiatic Powers, the authority which a weapon of this kind would give to the Council of the League would be overwhelming. In the case of disputes in South America, it would probably be imprudent for the Council to take any action without the approval, or at least the acquiescence, of the United States. But this is equally the case in any dispute between South American Powers. The difficulties of the position of the League of Nations in South America *vis-à-vis* the United States are in no way aggravated or further complicated by the Project of Financial Assistance.

The proposal is therefore an extraordinarily effective way of giving greater reality to the decisions of the League. It elevates them into an atmosphere of actuality which they cannot possess so long as it is a mere question of disapproval and indefinite sanctions. It is, indeed, an immensely better way of bringing the force of the League to bear than by any such schemes as an international army or air force, or by any kind of blockade, or by any embargoes, or other discriminatory action against the aggressor. It is more spectacular. It is more practically useful to the aggrieved party. I can hardly imagine one of two minor Powers really proceeding to hostilities against the other if it knew that this other was to receive financial backing on the scale proposed. Yet it is a weapon which can be put into the hands of the League at the risk of an exceedingly moderate expenditure on the part of those coming forward to contribute. Mr. Rockefeller himself could put up the whole amount without feeling it. The cost is not of an order or magnitude which ought to influence for a moment any of the Great Powers. Indeed, those of them who have the cause of peace at heart could well afford to take more than their strict quota. I recommend this scheme of financial assistance, therefore, as one of the most solid proposals for the maintenance of peace that has been made for many years.

It is, as I have said, a more solid and important proposal than uninstructed public opinion believes it to be. For there is a general principle of war finance which is seldom fully appreciated—namely,

by John Maynard Keynes

that during a war a country must, apart from foreign assistance, maintain itself and its armaments almost entirely out of the current output of its labor during the actual period of the war. It is this which gives such extraordinary importance to the assurance of having foreign financial assistance in liquid form. Illusions as to the possibility of a country living during a war on its accumulated wealth and using up the resources which it has acquired from its past savings often lead men to overlook this. Yet, apart from foreign investments which can be sold, there is very little indeed of the accumulated wealth of the country which it can use for the purposes of war.

We often speak of a country mobilizing its wealth for purposes of war. This is perfectly correct if we mean by mobilization of wealth the disposal of a country's current productive forces so as to make them efficient for war purposes. But if it be taken to mean the utilization of the actual accumulations of the past in order to meet current expenses, then it contains a surprisingly small amount of truth. Fortunately, perhaps, a country which is at war cannot ruin itself to the extent that it would be willing to if it were able. For the accumulated wealth of the world consists mainly in buildings, railways, roads, drainage, cultivated fields, ditches, and hedges; and very few of these things can be dissipated during a war. A country can refrain from keeping them in good repair, or can let them deteriorate a little faster than they would in peace time, but that is all. The actual liquid stocks of goods that exist in a country in the form of copper or any other important raw material are generally very small, equal at the utmost to a few weeks' normal consumption, and very little relief can be obtained merely by drawing upon these resources. Consequently, the only surplus which a country has for war is, broadly speaking, the surplus of its own current production over its own unavoidable consumption for other than war purposes, *plus* what it can borrow abroad. It is extraordinary, as we know from the experience of the late war, what an enormous productive activity a people is capable of developing compared with ordinary times, and it is by means of this extraordinary activity that the bulk of the services of war are furnished. But there will always be certain raw materials, food and other necessary imports, which cannot be supplied in this way. It is therefore its foreign finance which can involve a country at war in real difficulties. It may be that the proportionate amount of the total expense of the war which has to be raised abroad is not very large, but it is a very vital amount. In the case of Great Britain during the late war something like six-sevenths of the expenditure was raised by the country during the course of the war mainly by its own current economic activity, and something like one-seventh was borrowed abroad in one way or another.

But that one-seventh was indispensable;—so indispensable that it was rather strange to one connected as I was with the British Treasury that the acuteness of this problem of foreign finance should not have been more vivid to the imaginations of our enemies. There was a period in December, 1916, a few months before America came into the war, when the British Treasury was in sight of the very gravest embarrassment. The Munitions program which had been ordered in the summer of 1916 had to be paid for, and an aggravation of circumstances was causing a terrifying drain on the foreign resources of the British Treasury. There was a moment in December, 1916, when it looked as if our resources would be exhausted. The balances of the British Treasury in New York had fallen to a point, at one time, when they would only have met our requirements for a few days more. Further resources were mobilized, the drain fell off for the time being, and the trouble was surmounted. But when one comes to read the memoirs of that period from the German side it becomes clear that our extreme financial embarrassment at that date was totally unknown to the other belligerents; though surely, without any special knowledge, they might well have imagined it. The financial collapse of Great Britain in the spring of 1917 would

have been extraordinarily serious, particularly in its reaction on the position of the many allies whom we were then supporting. As it turned out, the financial problem was completely solved by the entry of the United States into the war in the spring of 1917. But by that time we had collected practically our final reserves for foreign use, and were so near to the end of our resources that it was necessary to obtain an emergency advance within a few hours of the entry of the United States into the war. Thus, from the point of view of the allies, the financial assistance obtained from the United States in the spring of 1917 was indispensable. Yet, extraordinary as it may seem, so far as I have been able to discover the German Government attached no particular importance to the financial significance of America's coming in. When the German authorities were considering whether or not it would be wise to introduce unrestricted U-Boat warfare, the memoirs of the day show that they were well aware of running a serious risk, if not almost a certainty, of bringing the United States into the war. Various aspects of that contingency they weighed, but—so far as one can judge from the memoirs—there was not one of those in the high counsels of Germany to whom it had occurred as a possibility that the British Treasury might be experiencing acute financial difficulty; that the whole network of alliances might be jeopardized by these financial difficulties; but that all such difficulty would come to an end at once as the result of the intervention of the United States.

This under-estimation of financial influences in war has not only often been made in the past, but is, I think, still common. It is probably this under-estimation of the importance to belligerents of foreign financial resources which has caused so little attention to be given to the Draft Convention for Financial Assistance. But it is a project, on the support of which all lovers of peace should concentrate their forces.

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John Maynard Keynes, author of the foregoing article, was principal representative of the British Treasury at the Paris Peace Conference and Deputy for the Chancellor of the Exchequer on the Supreme Economic Council. His book, "The Economic Consequences of the Peace," published in 1919, created a sensation in both England and America, being read by a public quite unaccustomed to works of the kind as well as by students of economics and finance. Among more recent volumes from Mr. Keynes's pen are: "A Treatise of Probability," "A Revision of the Treaty," "A Tract on Momentary Reform," and "The End of Laissez-Faire." Harcourt, Brace & Co. will issue sometime within the next months a volume by him entitled "A Treatise on Money."

In the recent death of Major George Haven Putnam the American publishing world suffered the loss of its most venerable figure and one of its most venerated members. Born in London, where his father had gone on business for the publishing firm he had founded, and educated in German universities, he was still abroad when the Civil War broke out. He returned at once to the United States and enlisted with the 176th New York Volunteers with whom he served till his capture by the Confederates in 1865. Thenceforth to the end of the war he was confined in Confederate prisons. After the conclusion of hostilities he returned to New York and entered his father's publishing house; with it he remained actively associated almost to the day of his death. As a publisher one of his notable contributions to his profession was his successful fight for the passage of the International Copyright Law. Major Putnam was the founder of the English Speaking Union, in connection with which he raised funds for the establishment of a chair of American History at the University of London. He was an active worker in municipal politics, a contributor to technical journals and encyclopædias, and the author of a number of books. Among his better-known works are "Books and Their Makers in the Middle Ages," "Memories of My Youth," and "Some Memories of the Civil War."

Our Imperial Task

THE IMPERIAL DOLLAR. By HIRAM MOTHERWELL. New York: Brestano's. 1929. \$2.50.

Reviewed by ROBERT C. BINKLEY

M R. MOTHERWELL reviews American world policies from the standpoint of one who believes that American participation in the World War is only an incident which helped to change the international position of the United States by bringing about the full utilization of the machine and stimulating the creation of an expert surplus of fourteen billion dollars. The author is in the habit of seeing things in broad perspective. As a newspaper correspondent he studied the Communist experiment in Russia and the Fascist experiment in Italy. He likes to construct great political air castles; he is the man who has propagated the idea of an Empire of Latins to be ruled by Mussolini as Emperor. Unembarrassed by any kind of provincialism, and well fortified with statistics from the Department of Commerce and with analogies from Tenney Frank's histories of Imperial Rome, he develops a thesis intended to explain America's march toward World Empire.

Just as Frederick Turner explained the rise of an American civilization as a product of the frontier, so Motherwell explains the rise of an American empire made by the machine, and manifested in the movement from debtor status to creditor status. Debtor psychology is isolationist; creditor psychology is interventionist. The debtor farmer wants to be let alone, to pay off his debt and to acquire the adjoining farm; a nation of debtor farmers is likewise opposed to intervention by one country in the affairs of another, and desirous of expansion in a national sense. The creditor nation, on the other hand, is no longer anxious to expand by acquiring and peopling unoccupied territories; it seeks rather to exercise in foreign countries just that minimum of influence which will serve to preserve its interests and investments. It has been the misfortune of America to bring a debtor attitude to the solution of creditor problems, to treat nationalistically matters which are really imperial, and to run an empire without an imperial technique. Our methods in the Caribbean have been clumsy and ill-advised, because we have not known how to keep our influence in the background, reserving our interposition for the minimal essentials. Our methods of dealing with Europe since the war have begun to display a more finished technique. "The Imperial Dawes Plan" was "America's first intervention in Europe as a whole, as distinguished from her two interventions in Europe's internal quarrels."

The constant increase of American investments abroad gives us not only a means of interfering in the affairs of other countries, but an interest in such interference. Our interests are always on the side of peace and stability, because disorder destroys the buying power of our customers. "The characteristic of national sovereignty is the power to declare war. The characteristic of imperial sovereignty is the power to impose peace." Thus does Motherwell lay our imperial task before us, in a book which for spirit and stimulating thought leaves nothing to be desired.

Let us have more books on this theme. We need them. The lack of a definitive interpretation of the causes of our entry into the World War, and the absence of an adequate explanation of the nature of our interest in world affairs haunts our foreign policy, even under its present vigorous leadership. It leaves constantly open to doubt the probability of our assuming any responsibility under the Kellogg Pact, and drives us to such gestures as the note on Manchuria. The zeal of the historians who have labored to take the bitterness out of the war guilt question will not be misplaced if it is now directed to clearing up the confusion surrounding American foreign policy, thus preparing an era of enlightenment in which Americans will no longer insist on formulating every international question as an issue between isolation more or less splendid and alliances more or less entangling.