

# WAR DEBTS AND REPARATIONS

AND THAT THEY MUST  
BE CANCELLED

*By*

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NOTE.—Owing to fluctuating exchange rates it has been impossible to convert all the figures used in this pamphlet into a single currency. The following exchange equivalents are therefore given for use in reading the tables :—

	Dollars	Reichsmarks	Francs
£1 = at par .. .. .	4·87	20·43	124·21
£1 = on Feb. 1, 1932 .. .. .	3·45	14·56	87·60

## I.—THE BACKGROUND

**WHEN** the war ended in 1918, the cry went up from the victorious Allies that Germany must be **made to pay its cost**. In Great Britain, the General Election of 1918 was fought largely on the issue of "making Germany pay." The most ridiculous estimates were put forward of the sums that could be extracted from the defeated and impoverished enemy, whose ability to pay at all was soon to be further reduced by the loss of a substantial part of her territory and economic resources, the cession of her colonies and her mercantile marine, and the confiscation of much of the property held by German subjects abroad. Nevertheless, public opinion in Great Britain—and even more in France and the other Allied countries—held that somehow the Germans must be made to pay. Regarded as the authors of the war, they were called upon to expiate their guilt; and the victorious countries, conscious that they too had been made poorer by the colossal waste and devastation of the four years' struggle, and weighed down by huge debts which they had incurred in its conduct, were in no mood to forego the uttermost farthing that could be extracted from their prostrate antagonists.

More than thirteen years have gone by since the war ended; and in that space of time some lessons at any rate have been learnt. No one in any country talks nowadays of making the Germans pay the cost of the war; for everyone knows that any such proposal would be merely ridiculous. But Allied statesmen, and especially French statesmen, have still not given up the idea of making the Germans pay as much as they possibly can, or even of continuing to demand more than they know can ever be paid. They have already received large payments under the successive plans for reparations; and they are the less inclined to allow these payments to cease because they themselves both owe big sums to the Americans and have their own internal budgetary difficulties to meet. They acknowledge that the present world slump has made it much harder for the Germans to keep up their payments; but the slump has increased their financial difficulties as well, and made them no more willing to forego anything they can get from the Germans. In the past year, they have indeed been driven to admit that, for the time being, it is impossible for Germany to pay at all. But the moratorium on reparations and war debts declared last summer was only for a single year and actually resulted in increased obligations for the future, as the payments due

in 1931-2 were not cancelled, but only postponed; and the entire question has to be dealt with afresh during the next few months. It is clearly impossible for the Germans to resume payment when the "Hoover" year ends; but the French, at any rate, have shown no willingness to consider more than a further temporary and partial moratorium, based on the expectation that payments will be somehow resumed, and back-payments made good, in the not distant future.

The problem of reparations is tangled up with that of debts. During the war, each belligerent country borrowed huge sums of money in order to meet its swollen expenditure. The larger part of these borrowings was from the subjects of the country concerned; but very big sums were also borrowed abroad, especially in the United States, which, both before and after their entry into the war, supplied European countries with huge quantities of foodstuffs, materials and munitions without receiving any equivalent imports from Europe. The American Government, after its entry into the war, lent the Allied Governments money to pay for these supplies, with the consequence that, when the war ended, there was a great debt owing to the United States. Great Britain owed the biggest sum of all; for in addition to what she borrowed for herself she also borrowed large sums which she re-lent to her European Allies. France borrowed largely both from the United States and from Great Britain; Russia borrowed from Great Britain and France; and all the other Allies in one way or another incurred huge international debts. The result was that, when the war ended, the Allies owed vast sums for interest and repayment of principal to the United States; the other Allies owed considerable sums to Great Britain; and all these debtors were trying to collect from Germany the means of paying their international debts, and also of relieving the pressure on their budgets from the still heavier debts owing by the various Governments to their own nationals.

Great Britain, indeed, did at a fairly early stage declare, in the Balfour Note of 1922, that it would be her policy to exact no more from her Allies and from Germany than would suffice to pay her own debts to America, and thus leave her, in respect of War Debts and Reparations, neither a gainer nor a loser. But the countries which had been devastated by warfare and German occupation were in a worse position for taking up such an attitude. France and Belgium especially felt, and still feel, entitled to claim from the Germans a great deal more than they owe America, and to use the balance as a contribution towards the rebuilding of their devastated areas, and

the lessening of their own internal burdens of taxation. Thus, while opinion in Great Britain soon moved round in favour of cancellation of both inter-Allied debts and Reparations—by which she stood directly neither to gain nor to lose—it was impossible to bring the French or the Belgians, who were large net creditors on reparations account, round to the same point of view; while the Americans, who owed nothing and had huge sums due to them, were not at all inclined to let Europe off paying, especially as long as they felt that European countries would be likely to spend a large part of the money on armaments and preparations for another war.

This is the tangle of international debt in which the world has been involved ever since the end of the war, and is involved to-day. Everyone admits that the heavy burden of these debts puts the most serious obstacles in the way of recovery from the world depression, and that no satisfactory way of providing for their payment has been found. But there are enormous obstacles in the way of their cancellation or of any readjustment that could make them bearable for the future. It is largely because of them that the world is threatened in 1932 with a widespread financial collapse which may lead to wholesale repudiation and possibly to war and revolution in Europe. The object of this booklet is to explain what these debts are, how they arose, and why their payment presents such insuperable difficulties.

## II.—CAN THE DEBTS BE PAID?

**I**N the first place, War Debts and Reparations differ from most other debts in that the debtors have no assets arising out of them to provide the means of payment. If a body of capitalists lends a business man £10,000 for the purpose of building a factory, the borrower owes £10,000; but he has the factory to set off against it, and he can hope to use the factory to produce goods at a profit, out of which he can normally both pay the interest on the loan and gradually repay the loan itself. But the sums which the Allies borrowed during the war were spent on things which were shot away, worn away, eaten or somehow consumed in carrying it on; and when the war ended there were no assets (save a certain amount of war scrap and surplus stores) to set against the debts. The sums borrowed therefore became a mortgage on the tax revenues of the borrowing countries—that is to say, a burden on their future productive capacities. And so large had the borrowings been that this burden

mounted up, in every country, to a really considerable slice of the total national income. This, of course, applies equally whether the money was borrowed at home or abroad; but, when it was borrowed abroad, there was the further difficulty that, somehow or other, net payment had to be made from one country to another. There were debtor and creditor nations; and the debts owing from country to country were not represented by profit-making assets in the countries which were called upon to pay. The problem at once arose of finding how these payments could be made.

Clearly, any payment at all involves a transfer of value from the debtor to the creditor. Where debts are paid within a single country, this transfer is usually made in money, by cash or by cheque. But the money is really no more than the form in which the transfer is made. When one man pays money to another, what he is in effect transferring is his claim to the things which the money can be used to buy.

When the debt to be paid involves a transfer from one country to another, the position is more complicated. For if the payment is to be made in money form, the money of one country has to be changed into that of another. But the money is still only a token; and what must really be transferred is the right to the things which the money will buy. International debts cannot really be paid in money, but only in things of value to the creditor.

This real transfer of value can take many different forms—as many as there are kinds of value capable of being transferred. Broadly, there are four main ways in which a debtor country, or its citizens, can pay their creditors abroad what they owe. They can pay in goods, or in services, or in gold, or in securities.

Let us begin by assuming that payment is to be made in goods. This can be done in two ways. The simpler is for country A, the debtor, to export to country B, its creditor, more goods than it imports from country B. It can then use the money which is due for its surplus of exports in order to meet its debt. The more roundabout way is for country A to send to other countries C, D and E, more than it imports from them, and for these countries to send country B more than country B sends them. A thus uses its credit balance in C, D and E to pay its debt to B. In either case, if the debt is to be paid, A must export on the whole more than it imports, and B import more than it exports.

But, in fact, goods are not the only things that can be transferred. It is possible for one country to pay another by rendering services to its citizens as well as by sending it goods. Thus, if the ships of one

country carry goods and passengers to and from another, its debts can be paid by this means. Or if the citizens of the creditor country go on holiday to the debtor country—or for that matter on business either—this again provides a means for the payment of debts. Or again one country may render financial service to another, by undertaking insurances for its citizens, or providing credit facilities for their use. Any service rendered in this way has to be paid for; and the payment can be set off against any outstanding debt.

Thirdly, a debtor country can pay by shipping gold to its creditor; for gold will always be changed into the national money of the creditor country.

Finally, debts can be settled by the sale of securities. If the citizens of the debtor country have existing investments in the stocks and shares of the creditor country, these investments can be sold in the creditor country; and so can certain classes of international securities. Or the debtor country can sell to the creditor country stocks and shares of its own, so that the citizens of the latter become owners of property in the former, and entitled to interest or dividends on their holdings. The effect of this last is really not so much to pay a debt as to postpone payment, by substituting annual payments of interest or dividends for payment of the principal. But it results, equally with the other methods, in a transfer of ownership from the debtor country and its citizens to the citizens of the creditor country.

Of course, all these four methods of making payment involve a readiness on the part of the creditor country to accept payment in the form concerned. The debtor country can only send more exports to the creditor country if the citizens of the latter are prepared to buy them. It can only render services for which there is a demand, or sell securities for which there is a market. It can even pay in gold only because gold is acceptable to the creditor as a means of payment.

We have been speaking so far as if the debtor and creditor countries made and accepted payment as countries. But in fact goods are made, services rendered, and securities sold in the main not by countries as such, but by individuals and business firms; and the buyers of these things in the creditor countries are also individuals and businesses, and not the countries as such. A Government which has a debt to pay has, of course, to get the money by taxing the private incomes of its citizens. The debts which have to be paid, however, may be either public or private. War debts consist mainly of debts owing from one Government to another, but include also public debts held by private persons in another country; and there are, apart from War Debts, large debts owing by businesses in one country,

or by municipal bodies, to businesses and private citizens in other countries. All such debts, whether public or private, call for a transfer of real values from one country to another, and have to be settled in one or another of the four ways mentioned above.

The actual settlements, however, are made directly, not in goods and services, but in money.\* If a Government or a private firm or person has to pay a debt abroad, the banker who acts on its behalf has somehow to get command of the foreign money needed to make the payment. This money is forthcoming as a result of the sale of goods or services or securities, or of the shipment of gold. The transfer of real values is the underlying condition which makes it possible for the money to be transferred.

But it is not always easy for a debtor country to make payment in any of the four ways described above. It may not be easy for such a country to get a surplus of exports over imports, and this will be the harder if the creditor country maintains a high tariff in order to keep out imports which compete with its own products. If trade is bad, moreover, the demand for the use of the debtor country's ships and financial services may fall off, less tourists from the creditor country may come and visit it, and there may thus be a sharp contraction in what are called its "invisible exports." The citizens of the creditor country may not want to buy back their own securities, except at a very low price, and may be altogether unwilling to purchase the securities of the debtor country. And finally the debtor country may have no gold, or very little, to spare, and be unable to make payment in this form. As long as international debts remained moderate in amount, and were applied mainly to productive purposes, these difficulties were not generally serious. But in face of the enormous growth of debts, and the spending of the borrowed money in unproductive ways, they have become very serious indeed.

Let us now try to apply these principles to the present situation. Great Britain is still the country with the largest amount of private overseas investments, and receives annually the largest sums in interest and dividends on these investments. But America is much the largest creditor in respect of public debts—that is, of debts owing from one Government to another. France is a considerable creditor on both Government and private account; for her citizens have large investments and loans abroad, and her claims to Reparations are much larger than her Government foreign debt. Germany is the greatest debtor; for in addition to the claims against her for Reparations, she has borrowed very large amounts of capital since the war,

\* Apart from a relatively small amount of Reparations in kind.



especially from America, and she is also considerably in debt to America, Great Britain and other countries for short-term advances of credit.

It has hitherto been fairly easy for foreigners to pay their debts to Great Britain—for two main reasons. First, because Great Britain has been a free trade country, ready to accept payment in goods; and, secondly, because British investors have shown great willingness to invest in overseas securities. Great Britain has imported far more goods than she has exported, and has, year after year, invested heavily overseas. It is, on the other hand, much harder for European countries to pay their debts to America, because America keeps up a high tariff against the manufactured goods they are chiefly able to export, and also because the Americans, though they have invested large sums abroad, have done this very intermittently, so that there has been no assurance that American lending would serve to balance the account in any particular year. It is, however, manifest that a great creditor nation cannot be paid at all unless it is prepared to receive a big surplus of imports over exports, or steadily to invest abroad enough to make the account balance. It can, indeed, to a small extent take payment in gold; and that is how America and France have attracted to themselves the greater part of the world's total supply of gold. But the available quantity of gold is insignificant in relation to the amount of the debts that have to be paid. The total gold stock in the Bank of England is little over £120,000,000, whereas the present capital value of the British Government debt to the United States is more than ten times as much. The attempt to settle balances of debt in gold has already stripped the debtor countries of almost all the gold they can spare, without making any real impression on the volume of debts still outstanding.

It is clear, then, that the possibility of international debts getting paid depends mainly on the other factors. Creditor countries must either take payment in goods or services, or buy foreign securities and so postpone the question of physical repayment by accepting interest and dividends instead of demanding the principal of the sums owed. This second method, however, involves a steady and progressive increase in the volume of debts outstanding; for foreign investment must proceed on an ever-growing scale if the creditors are not willing to receive payment in goods. The logical economic policy for a creditor country is to accept payment in goods, as Great Britain has done under the free-trade system. It is easy to see why a debtor country may desire to restrict its imports, and may erect

a tariff wall with this end in view; but the United States present the strange spectacle of a great creditor nation with a high tariff wall and a surplus of exports over imports at the same time claiming that her debtors shall pay what they owe and refusing to accept payment in the only forms in which they are in a position to pay.

As we have seen, this situation has led to a great influx of gold into America. But even so, Europe has only kept up its nominal payments because American citizens have lent large amounts of capital to Europe. In fact, the American investor has provided the money which the European Governments have then paid over to the Government of the United States. By this process, the total volume of Europe's debts to America, instead of diminishing, has grown steadily larger, despite the shipments of gold. It is indeed perfectly clear that until the Americans are prepared to admit a large surplus of imports over exports, they can in reality never be paid at all, and that, if ever they cease lending heavily to Europe, even for a brief period, default or a suspension of European payments in some form is bound to follow, as it has followed in 1931 the reduction in American foreign investment during the two previous years. But America shows no sign of abandoning, or even modifying, her tariff policy; and this means that, in reality, Europe cannot pay. Sooner or later, the logic of this situation must be brought home, and America will have either to admit European goods freely, or to forgo payment of Europe's debts. She cannot have it both ways, though a resumption by American investors of overseas lending on a sufficient scale might postpone a crisis, at the cost of making the ultimate position even more absurd. For logically the end of the process would be that the Americans would own the whole earth, on condition of taking nothing from it!

### III.—THE DEBTS DESCRIBED

WE turn now to the debts themselves; and we can best begin with a table showing their extent, as far as the leading countries only are concerned.

TABLE I

War Debts	Total Debt incurred	Total Sum payable in Annuities	Present Value of Total Annuities at 4½%	Percentage of present Value to Total Debt incurred
Due to United States (millions of dollars)				
From Great Britain	4,604	11,106	3,788	82·3
„ France ..	4,025	6,848	1,997	49·6
„ Italy ..	2,042	2,408	528	25·9
„ Belgium ..	418	728	225	53·9
Due to Great Britain (£ millions)				
From France ..	600	799	256	42·6
„ Italy ..	589	277	90	15·1
Reparations (millions of Gold Marks)				
	136,000*	113,905†	42,183	31·0
			† Under Young Plan	

This table shows (in column 1) the extent of war-time borrowing and of the reparation account as fixed in 1921, and in the last column the percentage reduction of the settlements under the various agreements compared with the original total. These terms, together with the "present value" figure, require a little explanation.

During a war while a country is borrowing heavily no very definite arrangement is made about the repayment of its debts. What happens is that the money is lent at so much per cent. and it is assumed on either side that arrangements for repayment will be made later on. After the war is ended it is apt to seem to be the interest of both sides to get a final settlement as quickly as possible. The creditor wants to know how much he is going to receive for his budget; and the debtor fears that he will not be able to borrow money cheaply or get a good credit standing for his trade if lenders see that he is not yet able to make arrangements about paying his war debts. Agreements were therefore made for the repayment of debts by one country after another in the years after the end of the war. Such arrangements, generally called funding agreements, lay down a new principal sum and series of annuities which shall after a long period of years pay off the principal sum together with the accrued interest

Thus, the existing agreements are based on paying off the debts by the year 1988, and were based on the anticipation that the countries would go on paying for over sixty years. When a funding agreement has been made, the annual payments may still be made directly from the debtor to the creditor Government, or bonds may then be issued to the total of the principal and sold by the creditor Government in the market. In either case, the charge for the debt service becomes a normal yearly charge; and, if the debtors were able to keep up their payments, the whole thing would fade out of the field of controversy, and become a part of the regular burden of taxation in the debtor countries.

As the last column indicates, there has been a considerable scaling-down in the debts from the amounts actually borrowed and the interest which had accrued upon them before payments began to be made. We must pause a moment to see how this comes about.

A debt can be reduced either by reducing the principal—the capital amount—or by reducing the rate of interest payable on the principal, or by a combination of both methods. In general most of the reductions were made by the second method; but where the total reduction has been very great a scaling-down of the principal may also have taken place. Money was borrowed at  $4\frac{1}{2}$  per cent. on the average during the war; the average rate of interest on the debt settlements has not been over 3 per cent., in some cases it has been below 1 per cent.

In order to compare these arrangements with the original claims the “present value” figure has been introduced. The “present value” of a debt is that sum, taken as principal, which a given number of annuities at a given rate of interest would pay off. Or, in other words, the figures in column 3 show what the principal for the annuities agreed upon would have been if the rate of interest had remained at  $4\frac{1}{2}$  per cent. Thus we get the entire scaling-down which has taken place expressed as a reduction of the principal owing, and with the aid of this figure we can make a calculation of the percentage reduction that has been made in the amount of the debt. The last column of the table, it should be noted, states not the percentage by which the debts have been reduced, but the percentage of the original debt which has to be paid if the post-war settlements are observed.

It will be seen from the table that the percentages by which the debts have been scaled down differ very widely from case to case. Reparations have already been scaled down to less than a third of the fantastic sums claimed ten years ago. France is called upon to pay to

both Great Britain and the United States less than half the amounts that were owing, and Italy only one-quarter to the United States and only 15 per cent. to Great Britain. Great Britain, on the other hand, has promised to pay the United States over four-fifths of the amount owing.

Under these various settlements, if there had been no moratorium and payments had actually been made, the United States (which takes no share in Reparations) would have received in 1931 in respect of War Debt payments no less a sum than 233 million dollars, of which 160 million would have been paid by Great Britain. Great Britain would have received from Germany and from the late Allies enough to pay this sum. By 1936 the total payments to the United States were to have risen to 313 million dollars, of which 180 million were to have come from Great Britain. France was to pay 40 million dollars to the United States in 1931, rising to 90 million in 1936; but French receipts from Reparations were calculated to leave her a big surplus after meeting both the American and the British claims. The Germans were, in fact, to pay all Europe's debts to America and a great deal more, so as to leave our late Allies with a net surplus for the relief of their internal budgetary problems. Figures showing the amounts actually paid in recent years on account of War Debts and Reparations, and the amounts payable during the next few years under the various settlements, will be found set out in the Appendix.

#### IV.—THE REAL BURDEN

**W**E have dealt so far with payments in terms of money. But the real burden of War Debts and Reparations is measured not by the amount of money that has to be paid, but by the goods and services that the money can be used to buy. The real burden has therefore been greatly affected by changes in the level of commodity prices. During the war and up to 1920, prices rose sharply. But since then they have fallen again, very greatly in 1921, then more slowly until 1929, and thereafter very sharply again during the past two years. The rise and fall have not been the same in all countries; but the figures of British wholesale prices as published by the Board of Trade reflect fairly well the movement of world prices for staple commodities possessing a world market. They may therefore fairly be used in order to measure roughly the changing real value in commodities of a given money debt; but they do not, of course, measure the retail

purchasing power of money, which neither fell so much as wholesale prices rose up to 1920, nor has risen so much as wholesale prices have fallen since then.

The various War Debts were, of course, incurred at different dates and different price-levels after 1914, while the amount of Reparations to be paid by Germany was originally fixed on the basis of a very high price-level. The subsequent fall in prices has caused the real burden both of Reparations and of War Debt settlements to become very much heavier. This effect is roughly illustrated in the following table.

TABLE

## WHOLESALE PRICES AND THE VALUE OF DEBTS

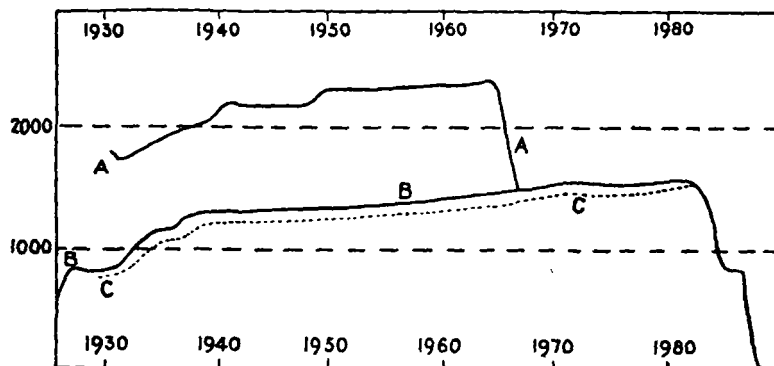
	Wholesale Price Index Numbers (1913 = 100)	Value of a Debt worth £100 in 1913	Wholesale Price Index Numbers (1920 = 100)	Value of a Debt worth £100 in 1920
1920	.. 307	33	100	100
1921	.. 147	51	64	156
1922	.. 159	63	52	192
1923	.. 159	63	52	192
1924	.. 166	60	54	185
1925	.. 159	63	52	192
1926	.. 148	68	48	210
1927	.. 142	70	46	217
1928	.. 140	71	45	222
1929	.. 137	73	43	232
1930	.. 120	83	39	256
1931	.. 105	95	34	294

It will be seen from the above table that, since most of the post-war settlements were made, their real burden, in terms of commodities, has been greatly increased, so that the debtor countries have to provide a much larger quantity of goods and services in order to meet their obligations. This has been a most important contributory cause towards making the settlements unworkable. They were onerous enough before the world slump of 1929; and the tremendous fall both in prices and in ability to pay during the last two years has made them sheerly unbearable.

It is obvious from what has been said that in all the tangle of international payments the United States is the eventual creditor and Germany the country that is called upon to pay. The other European countries for the most part receive from Germany and hand the money over to America. Up to 1960 the intention is that the European countries, except Great Britain, should retain a portion of the

receipts from Reparations; but after that date, if the settlements were observed, the whole sum paid by Germany would go to the United States. The position in this respect is illustrated by the accompanying graph.

GRAPH



REPARATIONS AND DEBTS TO THE UNITED STATES (Millions of Marks)

- A. Reparations annuities payable by Germany.
- B. Payments of all European countries to U.S.A.
- C. Payments to U.S.A. of non-Reparation-paying countries.

Hence area between lines A and B represents the sum the Allies keep for themselves out of Reparations.

Area between lines B and C represents the payments of Germany direct to U.S.A.

## V.—REPARATIONS

By the Treaty of Versailles Germany agreed to surrender large portions of her territory and the whole of her colonial empire, to hand over a large amount of movable properties, and to pay by instalments an immense but undetermined sum by way of reparation of the damage caused by the war in other countries. Her territorial losses included Alsace-Lorraine and a large area of Schleswig which was given to the Danes. East Prussia was cut off from the motherland by the Danzig "corridor" and is now, as a result of post-war tariff walls, largely derelict. In 1921 a decision of the League took away from Germany half of the Silesian coal and iron producing basin. These mutilations were heavy indeed. It has been calculated that they amounted to about 13 per cent. of her pre-war territory in

Europe; while her surrendered colonial empire was over 5 times in area the whole of pre-war Germany. And the losses were all the more serious, since they included some of the most important industrial and agricultural land that she possessed.

Alsace-Lorraine contained iron resources which provided about 40 per cent. of Germany's total supply, as well as potash deposits which increased the French supply by some 50 per cent., and was the home of a large proportion of Germany's textile industry. The Saar coal producing area passed under French control. Poland gained an extremely important agricultural area. Before the war the Silesian area was one great unit producing coal, iron and steel. The League divided it right through the middle, leaving Germany with a half that needed complete reorganisation before it could be used efficiently. Over all the field of production, it is calculated that about 15 per cent. of all her productive resources were removed by the Peace Treaties, and these losses included 48 per cent. of her pre-war iron supply and 16 per cent. of her coal.

In addition to this, she lost in the ceded territories about 15 per cent. of her population. She had also to hand over her whole fleet including her mercantile marine, 5,000 railway engines, 150,000 motor cars, 5,000 goods trucks and all the Alsace-Lorraine rail equipment. She was to acquiesce in the occupation of the Rhineland by her enemies for a period of fifteen years. For two years already her people had starved; she was a beaten country. Nevertheless, the Allies insisted that she should begin at once to pay off her debts, and ordered her to find £1,000,000 before May 1st, 1921, and to deliver large quantities of coal. Meanwhile the Allies would tot up the bill.

This was done by May of the next year. In addition to the sum for reparation of damage done, France and Belgium held that the cost of war pensions should be included. Germany was also bidden to pay a large part of the Belgian National Debt. When these items had been added and certain deductions made, the total came to the sum of 136,000 million marks, on which Germany was to pay an annuity of 2,000 million marks, and to make over 26 per cent. of all her exports. In addition, an immediate payment of 1,000 million marks was demanded in cash. These deliveries and payments were to start at once, and in the event of any wilful default the Allies were authorised to take economic and political reprisals. All this was put forward virtually as an ultimatum—Germany could but accept, while remarking quite truthfully that the terms were ridiculous and impossible.

The next two years showed the result of this attempt to ruin Germany and at the same time make her pay. Deliveries and



payments did actually take place, largely through the sale of property owned abroad and of foreign investments. But the effects on the German economy were serious in the extreme. The mark, which was already badly depreciated as a result of war conditions and the terms of peace, fell to 500 to the £, or 4 per cent. of its par value, on the day of the announcement. After the publication of the Silesian decision in 1921, there was another big drop, and after this the mark fell almost continuously. This period was one of great business activity and greater speculation. Owing to the exchange, an immense fillip was given to the export trade, and employment was full and plentiful. For the same reason the industrialist could borrow one month and repay the next in a currency that had considerably depreciated in the meantime. Hence great combines financed on borrowed money sprang up, and their leaders—of whom Hugo Stinnes was the most famous—made vast fortunes. Behind the industrialists came the usual crowd of smaller speculators who made their piles at this time—largely at the expense of foreigners who continued to buy marks in the firm belief that they would one day rise again. On the other side of the picture we may see the professional classes living on fixed incomes which were rapidly falling in value, and great numbers of small *rentiers* equally hard hit.

Even under these conditions the Germans did contrive to make some Reparations payments, in cash as well as in kind. Property owned abroad was sold, foreign securities liquidated, and coal and other deliveries in kind were made to France and Italy, while through the Reparations Commission payments were also made in cash. But, as the value of the mark fell, cash payment became more and more difficult, and before the end of 1921 the Reparations Commission was compelled to agree to a partial moratorium. Deliveries in kind, fixed beyond Germany's real capacity, soon also fell behind, and the year 1922 was spent in constant bickerings and negotiations over Germany's real capacity to pay. The amounts actually paid, in cash, and kind, were hotly disputed; and the Germans and the Allies have never agreed about them. But it has been estimated that, up to the end of 1922, Germany's total payments had reached a value of about 8,000 million gold marks.

But, as the German exchange continued to fall, the difficulties became more and more formidable. Before long, the Allies, and especially France, began to accuse Germany of deliberately inflating the currency in order to make default inevitable. France began to speak of "productive guarantees" for payment of Reparations, in accordance with a provision in the Peace Treaty in the event of

Germany's "voluntary" default. There were abortive negotiations for an international loan with the object of setting German finances straight. But when these broke down, the French, alleging as their justification the default on Reparations in kind, marched in and occupied the Ruhr on their own, and in spite of strong objections from Great Britain.

This action aroused furious resentment in Germany. There is no justification for the view that they had tried to inflate before. But now, with this last act of injustice, they called a campaign of passive resistance. The mines were left unworked, the technical experts refused to show the French how to manage the factories. Official relations between the French, Belgians and Germans ceased. The mark exchange shot up into millions. Germany was in complete stagnation—and starvation set in.

This factor at last broke the resistance. In September of 1923, after eight months of virtual siege, Germany gave way and promised unconditional acceptance of the Allied terms.

## VI.—THE DAWES PLAN

THEN at last the Allies acted. A committee, which included both German and Allied representatives, came together under an American chairman, General Dawes, and endeavoured to work out a scheme which should so rehabilitate Germany that she would be able to continue to pay Reparations on a revised scale.

The scheme which they advanced had two objectives; first, to arrange for the raising of sums in Germany in such a way that her finances were not upset by the process, and secondly, to transfer these sums when raised to the creditor, without seriously upsetting the exchanges. They did not consider either what had been paid nor why more had not been paid, and did not try to fix the total sum to be paid in future. The Dawes Plan was a temporary measure. The aim was to make arrangements for a few years only and then to take stock of the position again.

The Dawes Scheme embodies five main points, the first four dealing with the first object and the last with the second.

1. The German currency was to be stabilized. A new coin—the Reichsmark—based on gold and worth a shilling was to be put out by a reformed Bank of Issue, the Reichsbank. To ensure the Bank's good conduct a number of foreign directors were to be placed on the board.

2. A carefully graded scale of annuities was worked out (rising from 1,000m. Rm. in the first year to 2,500m. in a standard year. The first standard year was to be 1928-9 (*see* Table III).

3. These payments were to be raised by contributions from certain specified sources, part from the ordinary German Budget, part from new special imposts. This system, worked out with the agreement of the German officials, provided a definiteness which was very desirable and relieved the Budget of a part of the intolerable burden placed upon it in recent years.

4. A loan of 800m. Rm. was to be raised abroad to cover the greater part of the first year's payment.

5. Germany's task was to be considered done when she had made the payments in her own currency to a new officer—the Agent-General for Reparations Payments. The transfer into other currencies was to be left to the Allies, who undertook that the transfers would not be made if the German exchange was in danger.

TABLE III

SCHEDULE OF PAYMENTS UNDER DAWES PLAN AND SOURCES OF REVENUE  
(Million Marks)

	1924-5	1925-6	1926-7	1927-8	1928-9	Total for 5 years
External Loan .. ..	800	—	—	—	—	—
Budget .. ..	200	250	410	500	1,250	—
Transport Tax .. ..	—	250	270	290	290	—
Industrial Debentures ..	—	125	250	300	300	—
Railway Bonds .. ..	—	595	550	660	660	—
Total .. ..	1,000	1,220	1,480	1,750	2,500	7,950

It is obvious from these terms that a considerable change had come about in the attitude towards Germany. At last it was realized that the Germans must live if they were to pay Reparations, and that national domestic expenditure up to a minimum scale must come before any external payments at all. The co-operation between the German and Allied authorities was an equally new step. If these steps seem now to be the only ones that were possible and sensible, we must recollect that a year earlier they would have been politically quite impossible.

The point about the transfer of the sums paid by Germany is apt to be muddling and requires a little explanation. Since the mark is valid only in Germany, a German, when he has to make a payment in a foreign country, has to buy the currency of that country in exchange for his marks. In an ordinary private transaction—if, say, he is going to travel abroad—he will get his money changed for him at a Bank or with a dealer in foreign exchange. Now, if the demand

for, say, dollars in exchange for marks and the demand for marks in exchange for dollars are about the same, no difficulty will arise, and the exchange will be made at about the normal rate. If, however, there is much more demand for dollars in exchange for marks than for marks in exchange for dollars, the rate will tend to go against the mark. That is to say, a given number of marks will exchange for less dollars than before. That is what happened in the early days of Reparations; for the need to pay Reparations meant that marks had to be changed into other currencies without any balancing transaction on the other side.

When, however, a country is effectively on the gold standard—that is to say, when its own currency can be converted into gold at a fixed rate and the gold exported in payment of debts, the exchanges can fluctuate only within narrow limits set by the cost of transporting the gold. But a country can only stay on the gold standard as long as it has gold to export. If the demand for gold is too strong or too continuous, the country is forced to abandon the gold standard. In that case the external value of its currency can fluctuate without limit, according to the conditions of supply and demand.

Under the Dawes Agreement Germany was to return to the gold standard, and all payments were to be made to the Agent-General in gold marks. But the task of transferring these sums into other currencies without upsetting the exchanges was a delicate one; for the Germans had no large stock of gold and therefore were not in a position to buy large quantities of foreign currencies, unless they could either build up a large surplus of exports, for which foreigners would have to pay, or foreigners were prepared to lend them money to balance their outgoings on account of Reparations. As Germany had not the necessary surplus of exports, this meant that for the time being she could in effect pay Reparations only out of foreign loans; and care had to be taken only to transfer her payments into foreign currencies as the proceeds of these loans came in. But foreigners clearly would not lend money to Germany until her currency was stabilized. That was why a return to the gold standard was essential to the success of the Dawes Plan, even as a temporary measure.

The Dawes Plan could make the transfer easier and it could stabilize the value of the mark for a time; but it could not do more than encourage foreigners to lend money to Germany. This problem in its two forms—the sale abroad of German goods and the attraction of capital into the country—has throughout dominated the Reparations question; for payment can be made in fact only out of an export surplus or out of foreign loans.

Germany, as will be readily imagined, was after 1923 in a bad way. The war and the last ravages of the inflation had not only disorganized her industries and left her plant spoilt, but the long period during which the mark was low had allowed her industries to undercut foreign competitors more efficient than themselves. The stabilization of the mark removed the huge bounty on German exports and the German found that to retain his markets at all he would have to reorganize very drastically indeed.

In ordinary times a country as old and developed as Germany is able to get the capital required for improvements from the proceeds of its own undertakings and even has sufficient surplus to export some abroad. This was Germany's position before the war; but it was quite impossible for her under post-war conditions. Any surplus there was as the product of her export trade would be swallowed up at once in paying Reparations, and would still not be nearly enough. Germany had long been trying to raise a loan abroad; and she now turned eagerly to foreign borrowing, which the Dawes Plan had made possible. Apart from the loan raised directly under the Dawes Plan, which was ear-marked for payment of Reparations, money poured in in astounding quantities from private investors, especially in the United States; and the money was used to set on foot the great plan for the re-equipment and rationalization of German industry. By the end of 1928 Germany had borrowed 25 thousand million marks; her net liability at that date stood at 15 thousand million marks. The following table, which has been taken from the Basle Report, shows the growth of her indebtedness from 1925 onwards.

TABLE IV

## GERMAN FOREIGN BORROWINGS

(Milliards of Rms.)

	End of	1924	1925	1926	1927	1928	1929	1930	July 1931
Foreign Investments in Germany									
Short .. .. *	*	*	*	4.1	6.6	9.0	11.7	10.3	8.0
Long .. .. *	*	1.0	2.5	4.1	5.4	7.0	7.3	9.2	9.0
Other .. .. *	*	*	*	3.5	4.5	5.5	6.0	6.0	6.0
Total .. .. *	*	*	*	11.7	16.5	21.5	25.0	25.5	23.0
German Investments Abroad									
Short .. .. *	*	*	*	3.6	3.9	4.5	5.5	5.3	3.5
Long .. .. *	*	*	*	4.5	4.5	4.5	4.5	4.4	5.0
Total .. .. *	*	*	*	8.1	8.4	9.0	10.0	9.7	8.5
Net Assets (+) or									
Liabilities (-)	+2.9	+1.0	-2.7	-3.6	-8.1	-12.5	-15.0	-15.8	-14.5

\* Unknown.

In his latest report dealing with the period up to March 1930 the Agent-General was pleased to state that all payments had been loyally and punctually made. In the five years since the Dawes Plan had been set going nearly 8,000 million marks had been transferred abroad. But in the above table we see the other side of the picture. In truth Germany had borrowed abroad over three times as much as she had paid. No real payment at all had taken place; on the contrary her debts had been immensely increased. She could only keep going as long as her creditors, direct or indirect, were prepared to lend her more. If for any reason the investors and short-term lenders got frightened, or found other uses for their money, as they did during the American boom, it was plain that the Germans would be unable to maintain their payments, and would be in the greatest difficulty to keep themselves from utter bankruptcy and collapse. At the least, default on Reparations would be unavoidable.

## VII.—THE YOUNG PLAN AND THE WORLD SLUMP

Now that this has actually happened it seems plain enough that it was bound to happen. But before it did occur the Dawes Plan had come to an end and a new one, the Young Plan, had been introduced. The chief objects of the Young Plan were, first, to fix the total of Germany's future payments at a figure which it was believed she would be able to maintain, and, having done this, to put Reparations on a more rigid commercial basis and allow less for conditional payments and alterations according to temporary changes in her ability to pay. The Young Plan was to settle the question once and for all, by taking Reparations out of the sphere of politics, and making them purely a commercial matter.

The Plan provided for a new schedule of payments, on the average, about a fifth less than the standard annuity under the Dawes Plan (about 2,000 m. Rm. instead of 2,500 m. Rm.) The total amount of these payments was fixed (*see* the table in the Appendix). The foreign directors were to retire from the Reichsbank. A certain amount of the debt was to be funded and commercialised; about one-third of the early payment (660 m. Rm.) was made "non-postponable" and had to be paid regardless of exchange conditions. Lastly, instead

of the temporary Agent-General a new permanent Bank for International Settlements was set up to deal with the work of transfer.

This plan was at the time generally considered a great step forward. It was felt that Reparations might soon all become funded like any other debt, and the problem fade out for ever from the public gaze. The Bank for International Settlements might be the first of a series of International Banks that would make future wars quite out of the question. Moreover, the Rhineland was to be evacuated, all direct foreign control removed, and Germany at last to lose the shame of being treated as an irresponsible criminal or defaulter. However, the best laid plans go wrong. While the nations were squabbling at the Hague about the division of the Young Annuity, events outside Germany had moved in a way that vitally affected her ability to pay. In 1929 the boom in America which had been going on so long that men thought that it would never end had reached its height; and speculation in stocks and shares rose to fantastic proportions. Americans found it much more profitable to invest at home than abroad; and Germany, finding her supply of American long-term loans and investments cut off, was consequently compelled to offer very high interest rates to get any money at all and had to borrow more and more on expensive short-term loans. But short-term loans cannot be used without serious risk for buying capital goods for industry; and the German banks, which had to borrow short and lend long, if a collapse was to be avoided, soon found themselves in an extremely precarious position.

In 1929 the American boom burst; and the slump which has affected the whole world ever since set in. All prices fell sharply, and the prices of raw materials and agricultural products most of all. World trade fell off, and Germany, like other countries, found it much harder to sell her products abroad, and was forced deliberately to restrict her imports in order to build up an export surplus for paying her debts. Meanwhile, interest rates in Germany remained high, because of fears for her stability, and the high interest rates swelled the amount of the foreign claims against her. Many countries, finding it difficult to meet their obligations, raised their tariffs against imported goods still higher. The real value of all fixed charges—debts, mortgages, rents, etc.—went up as prices fell, and almost everywhere unemployment rose to heights previously unknown.

Germany in her unsound financial position was greatly affected by all these factors. She could not borrow easily, because of her precarious financial position, and it was harder further to sell her pro-

ducts; and yet her commercial debt was enormous, and on one-third of the Allies' claims for Reparations she could no longer even postpone payment on the ground that her exchanges would be upset. She was virtually bankrupt.

## VIII.—THE HOOVER MORATORIUM AND AFTER

THE crisis came to a head in the summer of 1931. A leading bank in Austria—the Credit Anstalt—failed; and the subsequent inquiry immediately showed the danger in which all Central Europe stood. Seeing how desperate the situation was, President Hoover proposed a moratorium on all war debts and reparations for a year—till June, 1932. After an anxious period of discussion with France (who refused to forgo the non-conditional payments) an agreement was reached by which these were paid into the Bank for International Settlements on the understanding that France would not withdraw them and that they would be at once re-lent to the German railways, and so kept in the country. The conditional payments were of course suspended.

At the same time a "standstill" agreement was made about private short-term loans. Withdrawals by foreigners of their advances to Germany were to be strictly limited in amount until the end of February, 1932. By that time it was hoped either the crisis might be ended or some new arrangement would have been made.

In that position matters stand to-day. Germany, as the Basle Report shows, had been living under a snowball system of finance under which debts have been paid by incurring new and bigger debts. But this system broke down, as it was bound to do, as soon as the supply of investors willing to lend money to German enterprises fell off. This happened in consequence of the American boom, and the slump did not revive lending to Germany, because by that time confidence in her ability to repay had been definitely undermined. Germany clearly cannot pay Reparations in addition to her other debts so long as tariffs remain high against her and there is no possibility of raising a long-term loan. But long-term loans depend "on international political conditions and on a basis of mutual confidence"—which do not exist to-day. In fact, though the Basle Report does not say so, the very nature of the claim for Reparations makes



for unsoundness; and in these days unsoundness in one country has disastrous effects on other countries.

Meanwhile—what is the outlook? German conditions are very bad and the German people undergoing very serious privations; and bad economic conditions have led to political troubles which contribute to make them even worse. Great Britain until this year has been able to influence European policy in Germany's favour; but Great Britain is going through a dangerous period herself and cannot afford to strain her resources in giving Germany further help. Short-term credits locked up in Germany are already causing serious embarrassments to her finances. The Americans, for their part, are inclined to insist, even more loudly because of their own troubles, that the Reparations tangle is not their business, and that any demand from Europe for the cancellation of their debts is unreasonable and cannot be considered. They want the sums they have invested in Germany to be salvaged, and they recognize the disaster of a German collapse; but they hold it to be Europe's business to patch up its own difficulties, and they will certainly not admit either that the payment of Europe's war debts should be conditional on the payment of Reparations by Germany, or that the claims on Germany for Reparations should take precedence of the payment of private commercial debts and of interest on American loans and investments in Germany. The French, on the other hand, are equally adamant that Reparations come before commercial debts, and declare that they cannot make any move towards a scaling-down of Reparations unless the initiative comes from the Americans in a proposal to cancel European debts. There is at the moment a complete deadlock. Germany has announced her inability to resume payment of Reparations not only now, but at any future date. Great Britain and Italy want to cancel all War Debts and Reparations; but the Americans insist on being paid their debts, and the French their Reparations. As we write, an International conference to deal with the problem ought to be meeting at Lausanne; but the Americans will not attend it, and it has been postponed because France and Great Britain cannot agree on what should be done. In Berlin, the representatives of the foreign banks which hold large amounts of short-term German debts have now agreed on an extension of the Standstill Agreement, but they have made its extension subject to important reservations depending on the settlement of the wider issue of Reparations by the Governments concerned. Some agreement to extend the Standstill had obviously to be made, as it was clearly impossible for the foreign bankers to withdraw their money. But while the Reparations problem

remains unsettled, there can be no restoration of confidence in German stability, and the world is bound to plunge into deeper and deeper distress. Some adjustment, even if it is only temporary, must be made if there is not to be a complete collapse in Germany during the next few months—with who knows what disastrous consequences for other countries as well. But no agreement can restore confidence unless it goes to the root of the matter, and achieves a workable and permanent settlement.

## IX.—HOW GREAT BRITAIN STANDS

GREAT Britain was before the war by far the largest creditor nation—that is to say, British investors had far larger holdings of capital abroad than those of any other country. Even after the war, though many British investments in America had been sold in order to pay for war supplies from the United States, British citizens still had more overseas holdings than either Americans or Frenchmen. But, whereas before the war Great Britain had no external *public* debt at all, she emerged from the war both a creditor and a debtor. She had lent largely to her Allies, and she laid claim to a share in German Reparations; and on the other hand she had borrowed largely from the United States, both on her own behalf and in order to re-lend to her Allies. On April 1st, 1925, the total of the British external public debt, including accrued interest, came to £1,222 millions, while her Allies owed her £2,062 millions, and she was entitled to 22 per cent. of Germany's Reparation payments.

Thus, apart from the large private overseas investments of her citizens, Great Britain was, on paper, a larger net creditor on account of War Debts and Reparations. But there was never any real likelihood that she would be able to collect the sums owing to her. Indeed, in the years after the war lively hopes were already being expressed that America would make possible a complete cancellation of all inter-Allied debts. Russia had already defaulted; and there was no prospect of France or Italy or the other Allies paying in full. In the Balfour Note of 1922 Great Britain was already expressing herself in favour of surrendering her share in Reparations as part of a general writing off of all inter-Allied War Debts. But this view was not acceptable to the other creditors. France and Belgium would not forgo their share of Reparations. The American Debt Commission was instructed not to consider any proposals for

reductions. Great Britain was therefore driven on to her second line of policy—also expressed in the Balfour Note—that in the event of cancellation proving impossible “we do not in any event desire to make a profit out of any less satisfactory arrangement.” It was laid down as the British policy that, as soon as agreement had been reached as to the amount she had to pay America, she would so arrange the receipts from her Allies that she made no net profit. In the various agreements with the Allies there is a clause to the effect that if for any reason the British-American payments are revised in a downward direction Great Britain will return the balance in proportion to their payments. The policy of the Balfour Note has been followed all along. Below we give a table showing how the receipts and payments would balance if the sums laid down in the agreements continued to be paid.

TABLE V

## RECEIPTS AND PAYMENTS OF GREAT BRITAIN

1930	1940	1960	
18·3	22·8	20·3	receipts for Reparations
2·7	2·4	3·0	less sum due to Dominions
<hr/>	<hr/>	<hr/>	
15·6	20·4	17·3	
16·7	18·4	20·4	due from Allies
<hr/>	<hr/>	<hr/>	
32·3	38·8	37·7	Total due to Great Britain
<hr/>	<hr/>	<hr/>	
32·8	38·0	37·1	less payment due on Anglo-American debt.

The American settlement was concluded in 1923 between Mr. Baldwin and the U.S. officials. The debt was funded at £963 millions, and on this sum bonds were issued payable in 1984. A small difference was paid in cash. The annuity payments covering interest and principal came to £32·5 millions per annum in the first ten years and £37 millions for the later years, and total £2,000 millions. As in all the other American debt settlements, the payments are to be made in gold dollars. Hence if the pound sterling depreciates in relation to the dollar, as it has done since Great Britain went off the gold standard, the number of pounds to be paid rises. At the present relative values of pounds and dollars, it is not far short of half as much again as it was when Great Britain was on the gold standard. This is apart from the effect of the fall in prices, as measured in gold, in adding to the burden of the American debt in terms of commodities. This second condition, of course, applies to all debts payable in gold, including Reparations under the Young Plan. In all cases, as gold prices fall, the real burden of the debt is increased.

The British settlement with America was unconditional. There was no provision linking it in any way with the payment of German Reparations or the receipt of sums due from the Allies. Great Britain promised absolutely to pay in gold dollars four-fifths of the nominal amount of her debt to America, and thus tied a terribly heavy burden round her neck. Possibly no more favourable settlement could at the time have been secured from the United States; but, if that is so, we were clearly unwise to make at that stage any final or unconditional settlement at all. Mr. Baldwin's acceptance of the hard bargain driven by the Americans placed this country in a most unfortunate position; and it is now widely recognised, even in the United States, that the terms ought to be drastically revised, even apart from any general cancellation or writing-down of other debts.

After the adoption of the Dawes Plan, Great Britain set about the conclusion of arrangements with the countries which were in her debt. The two principal debtors were France and Italy; and agreements with them were made in 1926.

The French had borrowed from Great Britain £545 m. With the accrued interest this had mounted to £653 m. and on this basis the debt was funded. Annual payments totalling £855 m. and rising from £4 m. in the first year to £14 m. in the later years represented less than 1 per cent. interest on the principal. Thus the French were called upon to pay only 42·6 per cent. of the nominal capital value of the debt at  $4\frac{1}{4}$  per cent. interest.

The agreement with Italy was even more lenient. In December 1925 the nominal debt stood at £611 m. By the terms of the agreement Italy was to pay in 63 instalments a total of £277 m. in annuities rising from £2 m. in 1926-27 to £4·5 m. after 1936. This represented the writing off of the whole of the interest and the greater part of the principal. Italy was to pay only 15·1 per cent. of the nominal value of her debt.

About this time, too, the settlements were made with the smaller debtors.

It must be admitted that the strain of the post-war years in this country had not been anything as great as it was in some others. Great Britain suffered no territorial losses in the war and had practically no devastation to repair. Though we agreed to pay over 80 per cent. of our war debts and to receive rather under 40 per cent. of what we were owed, yet, if Germany paid the Reparations assessed upon her, we should not be called upon for any net payment.

Our trade position after the war was, indeed, not so favourable as before. The volume of our exports had seriously declined; and the

decline of Germany as a commercial rival was poor compensation for the dislocation of markets throughout the world. But even so Great Britain, despite a greatly increased adverse balance of merchandise trade, due partly to higher imports and partly to the fall in exports, had, on account of her great investments overseas, a substantial balance of payments on the right side. Except in 1926, when conditions were upset by the coal dispute, there was each year from 1924 to 1929 a surplus of well over £100 millions available for overseas investment, after allowing for payment of the American debt. Even if all receipts from war debts and Reparations had ceased, and we had gone on paying America, this would, up to 1929, only have reduced the balance available for fresh investments abroad, and not have wiped it out altogether.

So far, Great Britain was troubled far more by the magnitude of her internal than of her external debts; for by far the greater part of our war borrowings had been from our own citizens. No reductions of interest, except by way of certain conversion operations, had been made on this debt; and its yearly cost was over ten times that of the external debt. This money had to be collected by high taxation from all classes; and, since the receivers have been largely non-producing rentiers, the whole operation has constituted a tax on productive enterprise.

Moreover, during the war, countries were forced to produce more goods for themselves than before; and consequently, in many branches of production, their demand for our exports has declined. We have found it hard to replace these exports by other products in more expansible demand, and there has been continuous and widespread unemployment in the export trades.

Great Britain is still, however, a great carrying and service-providing nation, and on the whole is responsive to the state of other countries. A prosperous Europe means a prosperous Britain; but unfortunately, the converse is also true. In the measure that our neighbours—and all the world is these days our neighbour—are flourishing or suffering, so are we. During the slump of the last two years we have been affected almost as seriously by the loss of revenue from shipping and services as from the loss of export trade—and even more seriously by the decreased profits on our investments abroad. Finally, our prospect of collecting the sums due to us for war debts and Reparations must depend largely on the prosperity of the debtor countries.

## X.—THE ATTITUDE OF FRANCE

FRANCE as we have seen, is a considerable net creditor on account of war debts and Reparations; for she draws the largest amounts from Germany, and she has made very favourable settlements with both Great Britain and America in respect of her own debts. She has, moreover, felt the effects of the world slump, up to the present, far less than any of the other leading countries.\* She is a creditor nation, with considerable investments abroad; she has a huge stock of gold, second only to that of the United States, as well as large credit balances in London, New York and other centres.

Her devastated areas have been mainly repaired; and she received under the Treaty of Versailles a great and valuable accession of territory and resources. France to-day seems in a better position than any other country to lead the way towards a generous settlement of Europe's outstanding difficulties. And yet it appears to most people that France is the chief obstacle in the way of a satisfactory settlement. Last summer, she nearly wrecked the Hoover moratorium, by standing out for the continued payment of the unconditional annuities under the Young Plan; and now she is insisting that on no account must the structure of the Young Plan be upset by any new arrangement that has to be made. In fact, France demands her pound of flesh from Germany, and seems to demand it even if Germany is clearly not in a position to pay.

What explains the French attitude? In the first place, it is well to realize that the French really have a case. The damage done to their territory, though now repaired, was very severe. It was estimated that, in 1919, France needed 700,000 new houses and 123,000 factories. 8·2 million acres or 7 per cent. of all her agricultural land lay devastated, and the roads and railways in those areas needed complete rebuilding. Her population was sadly depleted and she had incurred a foreign debt of 40,000 million gold francs. She had lent largely to her allies in Eastern Europe: Russia, her largest debtor, had repudiated her obligations, and the rest were mostly unable to pay. 30,000 million francs were lost in these ways. On the whole, her position had changed from that of a creditor nation to that of a debtor. In 1914 she held nearly 40,000 million francs worth of foreign investment; in 1919 her net indebtedness amounted to 6,800 million francs.

\* But she is now beginning to feel it severely; for her retention of the gold standard while other countries have suspended it has hit her export trade very hard.

The Treaty of Versailles, on the other hand, presented her with Alsace-Lorraine, 5,600 square miles in area containing a population of 1·7 million. This area held very fine agricultural land and rich potash and iron deposits, and was the home of a great textile industry. Its addition increased the entire economic resources of France by about 5 per cent., her textiles by 26 per cent. and her reserves of iron ore by 45 per cent. She acquired in addition the valuable coal resources of the Saar, a most welcome addition to her deficient supply of fuel. She was to receive large sums of Reparations which would enable her to re-equip her industries, as well as to repair her devastated districts. Finally, she was at last secure, for a time at least, from any possible threat of war. The one loss that seemed to her irreparable was her human wastage, which left her with a short supply of labour.

Whether France gained on balance or not, her immediate situation was extremely serious, and remained so for the next six years. Reconstruction had to begin immediately; and there was no export surplus to pay for it. Trouble set in at once over the collection of Reparations. Consequently, borrowing continued. Between 1919 and 1924 the French foreign debt, both public and commercial, was increased by 26,900 million francs. The budget was each year badly unbalanced and the franc, which had fallen abruptly in 1919, continued on its downward course. On the other hand, business was active and unemployment low: the reconstruction did take place and by the end of 1924, 90 per cent. of the work was completed.

Then followed a short period in which the inflation grew worse. Governments, harassed by the problems of finance, followed each other in rapid succession. Eventually, however, the franc was stabilised, at about one-fifth of its pre-war value. France thus shook off the greater part of her debt burden, at the expense of her own natives, and French capitalists, who had sent as much of their money as they could abroad in order to escape the inflation of the franc, began to bring it back now that they felt it to be secure. France was able to fund her foreign debts in 1926, on extremely favourable terms. The period of panic and inflation was definitely at an end.

Since that time France has gone ahead steadily and without rebuff. Her budget, which before the war was frequently unbalanced, has, until the present year, shown a surplus. Her production, in 1929, of nearly every commodity had gone up considerably. Between 1922 and 1929, her output of artificial silk increased eight-fold; of iron, steel and coal, three-fold; of motor cars, six-fold. Her gold stocks

have risen enormously, she has had continuously a high level of employment, and she has been, until this winter, much less affected by the slump than any other nation. At this moment, France appears as the arbiter of European fortunes, able to bring or withhold relief where she wills—and in no mood to forgo the full advantage of her position. Far less rich indeed than the United States or Great Britain, she has at present neither internal troubles like the former, nor external difficulties like the latter, to hamper her freedom of action.

On war-debt account France is like Great Britain both a debtor and a creditor—with this difference, that her debtors are all either insolvent or have repudiated their debts. Her two main creditors are the U.S. and Great Britain. The settlement with the former was made in April 1926. The total borrowings had been £670 millions; allowing for accumulated interest the debt was funded at £805 millions; on this France was to pay increasing annuity payments starting at £6 m. in 1926–27 over a period of 62 years, when nearly £1,400 m. would have been paid.

(For the Anglo-French debt settlement *see* under Britain, page 28.)

It is interesting to compare the two settlements from the point of view of comparative cancellation. The total borrowed in the British case was roughly £545 m., in the American £670 m. In the 62 years of payment Great Britain receives £830 m. and U.S.A. £1,369 m. Thus, though the U.S. loan is only one-quarter larger than the British, the U.S. are to receive nearly two-thirds as much again as we do over the whole period. On the other hand, the British initial payments are larger than the American, so that, in the event of cancellation, we may prove to have driven in fact the less unfavourable bargain.

Under the London agreement, based on the Young Plan, France is entitled to 52 per cent. of all Reparation payments. Her receipts between 1924 and May 1930 are given in the Appendix. In the same place, we find the sums she is to receive if the Young Plan is carried out. After making her own debt payments, there is a surplus left which she appropriates. We give below an idea of the size of this surplus in certain years.

TABLE VI

		RECEIPTS AND PAYMENTS OF FRANCE		
		(Fs. m.)		
		1926-7	1928-9	1932-35
Reparations .. ..	.. ..	32	63	47·1
<i>less</i>				
U.S. Debt .. ..	.. ..	6	6·5	15·0
Great Britain Debt .. ..	.. ..	5	9	12·5
Balance .. ..	.. ..	21	47·5	19·6



## XI.—THE UNITED STATES AND EUROPE

WE come lastly to the United States, the final creditor to whom, directly or indirectly, all the other countries have to make payment. It is difficult to realise nowadays that, as recently as 1914, the United States was still a debtor nation. She had considerable investments abroad; even then; but there was more foreign capital invested in the United States than American capital invested abroad.

After the war, the position was changed. Foreign investments in America had been sold to pay for war supplies; and, apart from claims for money lent to the Allied Governments, the United States was a creditor country. She had, moreover, a considerable annual surplus of exports over imports, and a large annual balance available for overseas investment. Fresh loans to the rest of the world made her a larger creditor every year; and especially, after the mark had been stabilised, her citizens advanced huge sums to Germany by way of loans and investments. If the problem of international payments is at one end the extraction of reparations from Germany, at the other end it is the making of payments to the United States, over the high tariff wall which she persists in maintaining, despite her new status as *the* creditor nation.

The history of the American war debt settlements is simple. In 1922 the United States set up a Commission to deal with the question of war debts and invited her debtors to take steps to fund their debts. The terms she would consider were laid down, and though these were altered later on, and the "capacity to pay" principle admitted, she played for the most part a passive rôle and waited for her debtors to come forward. Some of the settlements have already been described (for Great Britain *see* page 27; France, page 32: and generally Table I). A summary of her annual receipts is to be found in the appendix.

America has taken a part in the attempts to settle the German problem, and the two plans under which Reparations have been administered are known by the names of two American citizens. In each case, however, the Americans came, not as representatives, but as private experts; for the United States takes up the attitude that officially Reparations, in which she claims no share, are none of her business. But in fact, Reparations and war debts cannot be kept apart; and in 1931 it fell to America to make the decisive move towards the year's moratorium.

Europe would like the Americans to cancel her indebtedness. The European countries argue that the United States only came into the war at a late stage, after making much profit out of it earlier, that she suffered no damage from it and relatively small loss of life, and that she emerged from it with productive capacity unimpaired, and far richer than ever before. The Americans, it is true, laid no claim to Reparations. But that does not satisfy the European powers, which hold that, in the interests of a satisfactory world settlement, they ought also to forego payment of war debts.

The American public, on the other hand, still sees the matter in a different light. United States publicists argue that the American entry into the war was an act of pure principle and altruism, from which the United States had nothing to gain and much to lose; for more still might have been gained by keeping out of the struggle, and supplying foodstuffs and munitions to Europe at a high price. They argue, too, that the peace settlement was made on lines of which they strongly disapproved and against their will, and that Europe's subsequent troubles are of her own making. They enquire why the United States should be expected to relinquish what she is owed, when there is no assurance that Europe will not squander what is foregone on arming in preparation for another war. It is necessary to realise that, whatever individual Americans in high places may believe, the main body of American public opinion is still by no means prepared to forgive Europe her debts.

The United States, moreover, is still dominated by a desire to keep clear of European entanglements. She will not join the League of Nations, which she regards as principally a European instrument for maintaining the *status quo*; and she will not admit that her position as a creditor in respect of war debts compels her to concern herself officially with the question of Reparations.

But, in effect, American isolation is impossible. Germany, as we saw, was only able to make Reparations payments to the Allies because American investors lent her huge masses of capital for the reconstruction of her industries; and American banks have also been the source of a large part of the world supply of short-term credits. If Germany were to be reduced to bankruptcy and default, the Americans would stand to incur a double loss—directly on their great investment in German bonds and stocks, and indirectly through the effect of a stoppage of Reparations on the willingness and ability of other countries to go on paying the sums due from them in respect of War Debts. Moreover, as long as America keeps her tariff, a constant stream of fresh American investment in Europe will be the

only means by which the sums due to her can be even nominally paid at all.

In a purely relative sense, however, the United States does enjoy a high degree of self-sufficiency. Her external trade bears a far smaller proportion to her total output than that of Great Britain or Germany, or even France; and her very strong financial position enables her to take her own line in matters of currency and credit, so as to compel the other countries to accommodate themselves to her policy. In recent years the dollar, rather than gold, has tended to be the real international monetary standard.

With these great advantages, it might have been expected that the United States would either not have been affected like other countries by world fluctuations of trade or that she would have been able to extricate herself from the continuing depression that now holds Europe and the rest of the world in its grasp. The fact that she *is* affected and that the slump which began in America and then spread to the rest of the world has been thrown back on America with redoubled violence—has shown that the whole basis of her attempted policy of isolation is false. American isolation, whatever the position may have been in the days when the Monroe doctrine was formulated, is to-day nothing more than a fallacy that exists in the minds of the American people who, ignorant of the causes of the world depression, are still thinking in terms of political unrealities. In 1929 the United States imported some \$4,000,000,000 worth of goods from abroad; of these 30 per cent. came from Europe. In the same year she exported \$5,000 million worth of goods, of which some 45 per cent. went to Europe. Each year she is receiving by way of War Debt payments \$160 million, as well as a large sum in interest on commercial debts. The figures given in Table IV show how she is involved in the fortunes of Germany. In face of these facts, to aim at preserving isolation is folly, for isolation can no longer exist. As early as 1924, Secretary Mellon said that a prosperous and solvent Europe would in the long run be more profitable to America than an indebted and poor one. Unfortunately, that is one of the many Cassandra-like remarks that are applauded but disregarded. How different the situation might be now if it had been listened to!

## XII.—CANCELLATION OR CHAOS?

THIS booklet is being finished in February 1932—thirteen years after the end of the war. The material devastation has now been nearly all repaired, and a generation which knew the war only as children has grown up. In every country in the world, the power to produce wealth is far greater than ever before; and there is no real obstacle in the way of a considerable rise in the world standard of living. But though war damage has been repaired in a material sense, the moral damage is with us still; and the high hopes of 1919 have given place, despite the increase in productive power, to a mood of disillusionment and general foreboding of disaster. The economic system is out of joint. World trade cannot be made to run smoothly; and there has been a constant series of financial crises. Instead of using their improved productive power to the full, most countries are maintaining huge bodies of unemployed workers. Instead of doing their best to develop international intercourse, most countries are trying to shelter from the economic blizzard behind high tariff walls, and to increase their exports without receiving imports in return. Fantastic burdens of debt, owed from country to country, make these suicidal tendencies inevitable; for each debtor must try to build up an export surplus and each creditor, faced with the so-called dumping of goods in the home market, seeks to keep out imports in the vain hope of providing more employment for its own citizens. Everywhere there is fresh news of countries driven off the gold standard, and of defaults and rumours of default based on sheer inability to meet the accumulating burden of debts. Germany, Hungary, Austria—all the mid-European States—are bankrupt or near to it. Germany has recently halved her imports, and is half-starving her people in order to get a surplus of exports to pay her debts. Foreign receivers are to take over Austrian industries. A report on the condition of Hungary says that the only hope of solvency is further to cut down imports—and this is impossible. Holland and Great Britain, the last two stalwarts of reasonably Free Trade, are now engaging on the same ruinous war to increase exports and keep down imports. France, Italy, Spain, Scandinavia, Finland, Latvia, Jugo-Slavia, Canada, the Argentine, South Africa—all over the world the tariff barriers and restrictions grow higher. International trade, it seems, is to end, each nation is to support itself, for lack of use the long and carefully worked-out technique of international commerce is to be forgotten, because the nations have agreed to starve rather than face realities,

## APPENDIX

WE set out below the amounts payable between 1926-36 to the United States and Great Britain. In the case of Germany, whose payments have not corresponded with the schedules so exactly as the Allies', we have set out the actual figures of the transfers made by the Agent-General from the beginning of the Dawes Plan to May, 1930. For the future we give the schedule arranged under the Young Plan.

Of course, during this year 1931-32, no payments are taking place. If a new arrangement is not made, in theory the 1931-32 payments are to be made up for by increased payments in the next ten years, but the one thing certain in an utterly confused situation is that the Young Plan has broken down past all possibility of repair.

### PAYMENTS TO GREAT BRITAIN, 1925-26-1936-37 (EXCLUDING REPARATIONS)

		(£ 000)			
		France	Italy	Others	Total
1925-26	..	2,000	4,000	225	6,225
1926-27	..	5,000	4,000	790	9,790
1927-28	..	7,000	4,125	850	11,975
1928-29	..	9,000	4,250	1,050	14,300
1929-30	..	11,240	4,250	1,200	16,700
1930-31	..	12,250	4,250	1,250	18,000
1931-32	..	12,250	4,250	1,250	18,125
1932-33	..	12,250	4,375	1,250	18,250
1933-34	..	12,250	4,500	1,250	18,250
1934-35	..	12,250	4,500	1,275	18,275
1935-36	..	12,250	4,500	1,375	18,275

### PAYMENTS TO THE UNITED STATES (EXCLUDING REPARATIONS) 1923-36

		(Dollars (000)      \$4.86 = £1 at par)					
		Great Britain	France	Italy	Belgium	Rest*	Total
1923	..	161,000	—	—	—	6,985	167,985
1924	..	161,310	—	—	—	5,732	167,042
1925	..	161,620	—	—	—	6,539	168,159
1926	..	161,900	30,000	5,000	1,000	12,778	210,678
1927	..	161,150	30,000	5,000	1,000	13,132	210,282
1928	..	161,400	32,500	5,000	1,250	14,599	214,748
1929	..	160,590	32,500	5,000	1,750	14,957	214,807
1930	..	160,780	35,000	5,000	2,250	15,321	218,351
1931	..	159,940	40,000	14,621	2,750	15,123	233,434
1932	..	161,100	50,000	14,706	2,900	16,840	245,546
1933	..	183,900	60,000	14,791	2,900	18,575	280,176
1934	..	182,780	75,000	15,076	2,900	19,437	295,193
1935	..	181,661	80,000	15,460	2,900	20,174	300,195
1936	..	180,540	90,000	15,944	2,900	23,504	312,888

\* Includes Czecho-Slovakia, Estonia, Finland, Greece, Hungary, Latvia, Lithuania, Poland, Rumania, Jugo-Slavia.

## REPARATIONS UNDER DAWES PLAN

Amounts transferred (millions of gold marks : 20 marks go to the £)

		1924-5	1925-6	1926-7	1927-8	1928-9	—May	
							1930	Total
France .. ..	..	397	566	638	862	1,271	205	3,939
Great Britain ..	..	190	227	302	367	530	38	1,659
Italy .. ..	..	60	77	93	119	176	30	555
Belgium .. ..	..	93	116	69	109	126	14	527
U.S.A. .. ..	..	—	15	99	85	100	1	300
Rest* .. ..	..	49	89	80	98	149	24	459
<b>Total .. ..</b>		<b>789</b>	<b>1,060</b>	<b>1,281</b>	<b>1,640</b>	<b>2,352</b>	<b>312</b>	<b>7,434</b>

\* Includes Czecho-Slovakia, Rumania, Japan, Portugal, Greece, Poland.

## SCHEDULES UNDER YOUNG PLAN

(Rm. 000,000)

	Great Britain	France	Italy	Belgium	U.S.A.	Other Countries	Total
1930-31 ..	367	900	156	98	66	129	1,708
1931-32 ..	362	838	191	103	66	125	1,685
1932-33 ..	364	880	196	106	66	126	1,738
1933-34 ..	—	879	192	100	59	118	1,808
1934-35 ..	—	942	194	103	59	119	1,817
1935-36 ..	—	963	195	110	59	121	1,848

**CHECKED**  
**2003-04**