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*Interallied Debts and Revision  
of the Debt Settlements*

GEROULD AND TURNBULL

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VOLUME 4

INTERALLIED DEBTS  
AND REVISION OF THE  
DEBT SETTLEMENTS

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THE HANDBOOK SERIES

SERIES II

VOLUME 4

SELECTED ARTICLES ON  
INTERALLIED DEBTS  
AND REVISION OF THE  
DEBT SETTLEMENTS

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## PREFACE

Public questions are of two sorts. A few perhaps are so clearly based on economic facts that they are capable of logical solution. Most, however, are so compounded of elements, economic, political and sentimental, that they cannot be determined rationally. Legislation related to them must take all of these factors into account. The "economic man" of the Manchester school could only have existed on Robinson Crusoe's island and only for so long as he was alone. As soon as the Man Friday appeared, he would have immediately been transformed into an ordinary human being, governed very largely by emotion and environmental prejudice. The sum of these emotions and prejudices, tempered somewhat by experience, we formulate into a system which we insist is rational and the product of a careful intellectual process. It is not necessary to question too closely the substance of this opinion, for it is in the last analysis a reality with which the legislator must deal. Something may be done to influence it both by governmental authority and by groups of like minded. This process we call propaganda.

While it is true that, at any given moment, emotion and prejudice exert a controlling influence, it must not be forgotten that their exercise, unrestrained by facts of the more stubborn sort, is quite certain to lead to highly unsatisfactory results. Some one is quite sure to get hurt. It is rather a good idea therefore to make as careful an attempt as we may to find out what are actually the facts underlying the question at issue and to study them from all possible angles.

There is no better illustration of the truth of this

generalization than is furnished by the present controversy over the settlement of the war loans. On neither side of the water do realities control. The representatives both of the debtors and creditors must shape their utterances by popular opinion; as, if they do not, others would be called to hold their offices, a prospect which they cannot but regard as most unfortunate.

Gradually, however, as the discussion goes on, each is willing to accept and to defend positions that, a short time before, were regarded as intolerable; and this process will doubtless continue until some sort of a working agreement is reached.

It is with the purpose of presenting a statement of the facts at issue and the major arguments on both sides that this Handbook has been prepared. The outline of argument presented in the Brief is amplified in the documents and articles reprinted.

To the writers of these articles and to the journals from which they have been reprinted, the compilers return grateful acknowledgement for their courtesy in allowing us to use them.

J. T. G.

# CONTENTS

	PAGE
I. PREFACE .....	v
II. BRIEF	
1. Opposing Revision .....	xiii
2. Favoring Revision .....	xvi
III. BIBLIOGRAPHY	
1. Bibliographies .....	xxi
2. Debates .....	xxi
3. General References .....	xxii
4. Opposing Revision .....	xxiv
5. Favoring Revision .....	xxvi
IV. OFFICIAL DOCUMENTS	
1. Excerpts from the First Liberty Bond Act and the Act of February 25, 1919 .....	1
2. Act of Congress Creating the World War Foreign Debt Commission .....	2
3. Official Correspondence on the Cancellation of the Allied Debts, 1917-1920 ...	4
4. Letter of Secretary Glass to Congressman Joseph W. Fordney .....	25
5. United States Official Position on Inter- allied Debts .....	26
6. The Balfour Note .....	28
7. Press Statement of Secretary Mellon in Reply to the Balfour Note .....	33
8. Position of the French Government Re- garding Interallied Debts .....	35



	PAGE
9. Agreement for the Funding of the Debt of Great Britain to the United States . . . .	39
10. Agreement for the Funding of the Debt of Belgium to the United States . . . . .	47
11. Agreement for the Funding of the Debt of Italy to the United States . . . . .	51
12. Great Britain and Italy Debt Agreement	54
13. Agreement for the Funding of the Indebtedness of France to the United States	57
14. Agreement for the Settlement of the War Debt of France to Great Britain . . . . .	64
15. Provisional Debt Agreement of the French Government with the United States . . . . .	67
16. Statement by Secretary Mellon Concerning the Settlements of the Indebtedness of Belgium, Czechoslovakia, Estonia, Italy, Latvia, and Rumania . . . . .	67
17. Statement by Secretary Mellon Concerning the Settlements of the Indebtedness of France and the Kingdom of the Serbs, Croats, and Slovenes . . . . .	80
18. Memorandum of Secretary Mellon Concerning Foreign Governments Which Have Not Concluded Funding Agreements and a Statement of the Accomplishments of the World War Foreign Debt Commission . . . . .	88
19. Press Statement of Secretary Mellon Comparing the British-French and American-French Debt Settlements . . .	90
20. The Peabody-Mellon-Churchill Controversy over the Debts, July-August, 1926	91

CONTENTS

ix

	PAGE
21. The Columbia-Princeton-Mellon-Howard Correspondence on Debt Revision, De- cember, 1926-March, 1927 .....	124
22. Charts Showing the Present Standing of the Debts .....	173

V. PERIODICAL ARTICLES

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9. Gerould, James Thayer. War Debts that Have Been Canceled .....	375
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10. Inter-Allied Debts. ....	382
.....Round Table, September, 1926	
11. Kemmerer, Edwin Walter. The Burden of Germany's Obligations under the Dawes Plan .....	386
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CONTENTS

xi

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12. Keynes, John Maynard. The Balfour Note and Inter-Allied Debts .... Nation and Athenaeum, January 24, 1925	391
13. Lacour-Gayet, Robert. France's External Debt and Burden of Taxation ..... Proceedings of the Academy of Political Science, July, 1926	394
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VI. CHRONOLOGY .....	477
VII. INDEX .....	485

## BRIEF

### REVISION OF THE DEBT SETTLEMENTS

#### OPPOSING REVISION

- I. The debts were legally contracted.
  - A. The law is explicit as to loan and repayment.
  - B. France specially asked that the money should be considered as a loan rather than a gift.
  - C. Subscribers to the Liberty Loan were told that that portion of the funds which was placed abroad would be repaid by foreign nations and not by American taxpayers.
- II. A considerable portion of the foreign loans were spent on other than war expenses.
- III. The whole fabric of world credit is based on the sanctity of loans.
- IV. Should uncertainty of payment be admitted there would be little possibility of the negotiation of further loans.
- V. Had it not been for wanton extravagance on the part of the European governments during the post-war period, the loans might easily be repaid.
- VI. Due to the fall of the exchange value of the franc and other national units of value, the burden of internal debt has been reduced ap-

proximately 75 per cent, while earnings and prices have risen practically to the gold basis.

- VII. We are in no sense to blame if, since the war, the financial management of the European countries has been inefficient.
- VIII. American loans are not necessary, nor the creation of direct dollar credits, for these payments.
  - A. Much of the money from the loans goes into productive industries, and it is from the profits of these that the payments are made.
  - B. Triangular credits, *i.e.*, credits built up by the debtor countries through the sale of manufactured goods in other countries from which we purchase raw materials, enable them to transfer payments on their debts to us without straining their dollar exchange.
- IX. We have already canceled a large share of the debts, in the case of France the entire prearmistice loan.
- X. Since the settlements were reached, there has been no time to demonstrate what their effect actually is.
  - A. If it should develop that future payments cannot be met, a new negotiation can always be asked for.
  - B. It is not probable that the United States would suffer economic depression through the collection of debts.
- XI. Any conference called to discuss the matter would disturb business and give rise to hopes which could not be fulfilled.

- XII. Without our aid the Allies would have lost the war and would have been subject to penalties much heavier than their present debts.
- XIII. Although our citizens doubtless did profit from allied purchases, made on our own credit, our government paid cash at exorbitant rates for its purchases in France, with resulting large profits to the French.
- XIV. The amounts due to the United States will not be unduly burdensome as they are more than covered by the German reparation payments.  
 A. Payments also have been stretched over a period of sixty-two years, making them less burdensome.
- XV. We refused to accept any of the spoils of war.
- XVI. The territorial gains of the Allies offset, in large measure, the burden of the debt.
- XVII. The selfish and revengeful policy of the Allies at the Peace Conference released us from any moral obligations, which might otherwise have existed, to cancel the debts.
- XVIII. The national wealth of foreign countries will progressively increase, making it easier year by year to pay the sums required.
- XIX. The amount spent each year by American tourists in France, is many times larger than the yearly payments now asked of France.
- XX. If we remit the debts the money will be used in further preparation for war in Europe.
- XXI. We cannot influence a nation's policy in the matter of armaments by scaling down its debt to us.



## FAVORING REVISION

- I. The debts were part of the contribution of the United States in the common cause, and should not be treated as commercial debts.
  - A. If we capitalize the American lives that were saved during the year before our troops took the field, the resulting sum would be far in excess of the debts.
  - B. The language of the debates in Congress when the loans were voted, indicates that the loans were not regarded as ordinary debts.
  - C. The French refused to sanction a gift of \$1,000,000,000, to be raised by popular subscription, on advice from the United States Treasury, and with the promise of unlimited advances to be paid when convenient.
- II. The loans to the Allies were almost entirely spent in this country, and our farmers and manufacturers reaped the benefit.
  - A. In advancing the money, we stipulated that the first \$7,000,000,000 be spent here.
    1. We received a direct return of \$3,000,000,000 in the form of excess war profit taxes.
    2. It helped reduce the surplus of commodities with which we were surfeited.
- III. If the United States had fulfilled the pledges made by her representatives at the Peace Conference, the post-war financial collapse and reprisals in Europe would have been avoided.

- IV. The loss of men in killed and wounded in Europe, has produced abnormal conditions there and hampered economical administration.
- V. The Allies have accepted, in the Dawes settlement, an enormous reduction in German reparation payments, and have a right to demand corresponding sacrifices on our part.
- VI. The Dawes payments do not offset the amounts due to us.
  - A. The payments themselves are uncertain.
  - B. Reparations no more than cover the damages caused by the war.
  - C. No account is taken of the immense internal debts which are a legacy of the war.
  - D. Our government has consistently refused to recognize the relation between reparations and debt payments and to incorporate a safeguarding clause in the settlements.
  - E. The rate of taxation in debtor countries is very heavy, far in excess of that in the United States.
- VII. Mandates administered by the Allies are not a source of revenue but a liability.
- VIII. Capacity to pay is a mechanical formula and ignores essential political considerations.
  - A. Austria, an ex-enemy power, is treated better than the Allies and granted a moratorium for twenty years.
  - B. No one can possibly be omniscient enough to know what will be the capacity to pay fifty years from now.

- IX. Due to the appreciation of values, the dollars which we are reclaiming today are worth far more than those we lent.
- X. The debtor countries are handicapped by higher rates of interest.
- XI. If we cancel the debts not a single individual would have to make any sacrifice.
  - A. Our government would still be able to pay on the Liberty Bonds.
    - 1. We are enjoying an era of unprecedented prosperity.
    - 2. With a relatively low tax rate we accumulate annually a surplus of half a billion.
    - 3. The debt payments due in the next two years, amount to less than \$2 annually for each person in the United States.
- XII. Collection of the debts will mean business depression, lower wages, lower standards of living and hard times in America.
  - A. The cheaper goods of Europe will undersell us here, or in the foreign markets which we cannot control by tariff.
  - B. The debts can only be paid in goods and we can accept them only by a sacrifice of our standard of living.
    - 1. The standard of living of Europe is now very much lower than our own.
- XIII. The trade of a restored Europe is worth more than all the debt payments combined.
- XIV. We shall never be able to collect the present settlements; they will have to be modified some time.

- A. The settlements were accepted, not because they were just or because the foreign nations believed that they would be enforced, but because some basis had to be found for the re-establishment of normal relations.
  - B. Our prestige will be increased by a revision now; it will not be if circumstances force it on us.
  - C. Mr. Mellon himself does not regard the settlements as permanent.
- XV. To urge our government's obligation to its citizens and taxpayers is to evade the real issue, which does not concern the relation of the government to the people, but our national policy toward other states.
- XVI. Revision of the debt settlements will help to continue our policy of international cooperation, and restore the good-will of other nations to us.
- A. This was the result when we returned to China the indemnities due us after the Boxer Rebellion, to be used for Chinese education.
  - B. England has agreed to cancel her debts from other countries if we cancel hers to us.
- XVII. The money was loaned to restore the world to peace, its collection should not be allowed to become a menace of war.

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REVISION OF THE DEBT SETTLEMENTS xxxv

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## CHRONOLOGY

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- 1917, April 24 First Liberty Loan Act.  
Sept. 24 Second Liberty Loan Act.
- 1918, Jan. 1 Soviet decree repudiating foreign debts.  
April 4 Third Liberty Loan Act.  
July 9 Fourth Liberty Loan Act.
- 1919, Jan. 15 Letter of Édouard de Billy, French Deputy High Commissioner, to Secretary Glass, proposing that the question of the debts of the Allies be settled at a conference to be held in Paris during the peace negotiations. (The first formal official proposal for joint adjustment of allied debts).
- Jan. 29 Reply of Glass to de Billy.
- June 28 Treaty of Versailles was signed. A clause in this gave the Reparation Commission until May 1, 1921, in which to fix the total amount of German reparations.
- Sept. 26 The United States Treasury announced that it had informed the treasuries of European governments to which it had made advances, that it was prepared to discuss the funding of these demand notes.
- Nov. 8 Letter of Basil P. Blackett, British financial representative in Paris, to Assistant Secretary Rathbone. (The first formal British proposal in regard to adjustment of the allied debts).
- Nov. 18 Reply of Rathbone to Blackett.