The United States and the Allied Debts.

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Through the publicity given to the work of the commission to revise the Dawes Plan in session in Paris, the world has once more been forcibly reminded of the fact that the war still has to be paid for. When the great struggle was actually on, immediate victory, not ultimate cost, was the main consideration. Besides, there was a feeling that somehow the vanquished would pay. The destruction was carried on with great vigor and in the meantime the marvellous possibilities of credit made it possible to charge a large part of the cost to the generations yet unborn.

Peace came, and with it the gradual realization that the hope of making the defeated powers pay the cost was illusionary, — victors and vanquished alike will have to bear a heavy tax burden during the next half century in order to pay for expensive funeral ceremonies which followed the death of the Archduke.

Complete payment by the defeated being impossible, there arose the question of relative payments. All countries involved in the late crusade were unanimous on one point, namely that they would prefer to let the others pay for it. The stage of world politics has been occupied during these last ten years with efforts to negotiate debt settlements which would allow each country to pay a minimum and to receive a maximum. The period of noble sacrifice for the cause of humanity was over and the period of hard bargaining had begun, — if love, honor and morality were still invoked it was usually to point out that somebody else should make a sacrifice. Human nature being what it is, this is only natural. It is much easier to see why the dead had to sacrifice their lives for the honor of their country than to understand why the survivors should tax themselves for half a century.

The great game of how to make the other fellow pay was really a double game — a game within a game. There was, on the one hand, the efforts of the Allies to make Germany pay, and on the other hand the efforts of the Allies to make each other and the United States pay. The first is known as the reparations problem, the second as the problem of the interallied debts. It is with the Allied Debts to the United States and their settlement as seen from an American point of view that this study deals.

Origin of the Debts.

The need for American financing of the Allies arose in the last instance from the fact that neither their agrarian economy nor their industrial organization was productive enough to allow them to carry on the war without outside help. With the progress of the war and the necessity of greater effort, they became more and more dependent on the United States for foodstuffs and essential raw materials. Before the political participation of the United States in the war these Allied purchases were paid for partly through private loans with American bankers, partly through the mobilization of sterling and dollar security holdings. Through the sale of such securities the Allies probably raised about 1500 million dollars.

When the United States entered the war on April 6th, 1917, the Allies were beginning to reach the end of financial resources that could be turned into dollar exchange. The United States government was opposed to a continuation of private borrowing by the European governments on the ground that this might interfere with its own war financing in the form of Liberty Loan bonds, and for these two reasons the American government was therefore forced to make the problem of financial participation one of the first to be considered.

In his message to Congress on April 2, President Wilson called for the organization and mobilization of all the national resources of the country. He pointed out that American participation would require not only the most practical cooperation with the governments at war with Germany, but also the extension to these governments of the most liberal credits, in order that the resources of the United States might so far as possible be added to theirs.

Congress speedily passed the necessary legislation, and authorization to give financial aid to the Allies was obtained through the Liberty Loan Act which became law on April 24, 1917, and which provided that part of the money raised by the sale of Liberty Bonds could be used for extending credits to the European governments associated with the United States. Subsequent acts passed at later dates contained in principle the same provision as the first law and made available for credit purposes for the Allies a total of $ 10,000,000,000.

Act of April 24, 1917	$ 3,000,000,000.
Act of Sept. 24, 1917	4,000,000,000.
Act of April 4, 1918	1,500,000,000.
Act of July 9, 1918	1,500,000,000.
	$ 10,000,000,000.

The Liberty Loan Acts specifically restricted the loans to governments engaged in war with enemies of the United States and limited the purposes for which the loans were to be granted. The Secretary of the Treasury was instructed to enter into arrangements for the establishment of such credit, for the purchasing of obligations of the foreign governments, and for the subsequent payment thereof before maturity. It was also authorized that the money made available through payments on these obligations be used for the retirement of outstanding Liberty Bonds [1]).

The report on the first bill by the Ways and Means Committee contained the following description of its purposes:

> "The bill authorizes the Secretary of the Treasury with the approval of the President, to extend credits not to exceed $ 3,000,000,000 to Foreign Governments. It authorizes the purchase with the proceeds from the sale of these bonds by the Secretary of the Treasury with the approval of the President, of the obligations of Foreign Governments bearing the same rates of interest and containing essentially the same terms and conditions as the bonds issued under the authority of this act. It provides, however, that should any of the bonds of the United States issued and used for the purchase of such foreign obligations be converted into United States bonds bearing a rate of interest higher than $3^1/_2$ per cent, that in such event the obligations of the Foreign Governments held by the United States shall be converted into obligations bearing the same rate of interest as the like bonds of the United States. It will therefore be observed that the $ 3,000,000,000 credit proposed to be extended to foreign Governments will take care of itself, and will not constitute an indebtedness that will have to be met by taxation in the future."

In following out the instructions of the Liberty Loan Act the Secretary of the Treasury required the representatives of the borrowing governments to sign promissory notes (on demand) for their indebtedness, in much the same manner as would have been required from a borrower in an ordinary commercial transaction.

During the war the handling of interest was consistent with the theory of relieving the American taxpayer from the burden of the foreign loans. The First Liberty Loan bonds carried $3^1/_2$ per cent interest and advances were originally made to the Allies at the same rate. The act contemplated an increase in interest if higher rates were paid by the Treasury. Increased interest rates were charged to the Allies as new Liberty Bonds were issued or converted. Finally the procedure became so complicated that by agreement between the Treasury and the Allies, 5 per cent was fixed as representing the probable cost of money to the

[1]) Section 2, First Liberty Loan Act.

United States, taking into consideration the actual coupon rate, tax exemption and the cost of flotation.

The advances to the Allied Governments were made in the form of credit established with the Federal Reserve Bank, upon which the Allied Governments were allowed to draw in order to pay for goods purchased in the United States. Practically the entire amount was used in purchasing war supplies. The foreign Governments were required to report to the United States Treasury an itemized statement of their expenditures and the Treasury sold the credit in order to enable the Governments to pay for the materials purchased. Under the authority of the Liberty Loan acts the United States advanced to the Allied Governments up to the signing of the armistice a total of $ 7,077,114,750 (See Column I).

After the armistice the United States Treasury continued to extend loans to foreign Governments. For this it has been severely criticised, as the Liberty Loan Act explicitly limited the loans to the purpose of the prosecution of the war, and only to those countries engaged in war with the enemies of the United States. This objection has been answered by saying that peace was not officially established until after the German-American treaty had been ratified, and that, therefore, the Treasury did not really exceed the authorization given in the act.

The chief purpose of the United States in continuing to extend loans to foreign Governments was to prevent sudden cancellation of contracts previously made for the purchase of American goods. Humanitarian considerations also played their part, especially with reference to loans made to a number of smaller European Governments. In the post-armistice period the advances under the Liberty Loan Acts amounted to $ 2,521,121,825.45. (See Col. II).

The expenditures of the European governments were as follows [2]):

DOLLAR EXPENDITURES OF THE EUROPEAN ALLIES IN THE UNITED STATES

(From April 1917 to November 1920)

Dollar Expenditures	Total
Munitions, including remounts	$ 2,493,610,000
Munitions for other governments	205,495,000
Exchange and cotton purchases	2,644,783,000
Cereals	1,422,476,000
Other foods	1,629,726,000
TOTAL	$ 8,396,090,000

[2]) Report of National Industrial Conference Board on "Inter-Ally Debts and the United States" (1925) based on Treasury Dept. Reports, pp. 288 and 289.

Dollar Expenditures	Total
	8,396,090,000
Tobacco	145,100,000
Other supplies	613,107,000
Transportation	136,083,000
Shipping	173,397,000
Interest	730,504,000
Maturities	648,246,000
Relief	538,188,000
Silver	267,943,000
Food for Northern Russia	7,029,000
Purchases from Neutrals	18,718.000
Special credit against credits to be established for U. S. Government war purchases in Italy	25,000,000
Miscellaneous	168,530,000
TOTAL	$ 11,867,943,000

Dollar Receipts	
Dollars borrowed on Nov. 1, 1920 under Liberty Loan Acts (net)	$ 9,466,343,000
Dollars purchased from U. S. Government with sterling, francs, and lire respectively	1,490,600,000
Dollars purchased with rupee credits and sold from India	81,400,000
Dollars derived from other sources (balancing figures)	829,600,000
TOTAL	$ 11,867,943,000

In addition to the transactions under authority of the Liberty Loan Act, further credit was authorized under a number of acts known as War Supply and Relief Loans.

(a) Act of July 9, 1918, authorizing the President, through the head of any executive Department, to sell any surplus war supplies on such terms as the head of the Department deemed prudent.

(b) Act of February 25, 1919, which appropriated $ 100,000,000 as a revolving fund, for the participation by the United States at the discretion of the President in furnishing foodstuffs and other urgent supplies to certain populations of Europe and contiguous countries

(c) Act of March 30, 1920, which authorized the United States Grain Corporation, with the approval of the Secretary of the Treasury, to sell flour in its possession, not exceeding five million barrels on such terms as might be necessary to relieve the population in certain countries of Europe.

The total advances made under these relief acts amounted to $ 739,821,776.75 distributed among the various countries as indicated in Column IV. This brings the total of all advances, both under the Liberty Loan Act and Relief Acts to $ 10,338,058,352.20 (See Col. V).

The principles which guided the Treasury Department in making these advances to the European Governments have been clearly set forth in an article by Assistant Secretary of the Treasury, R. Rathbone in the April, 1925 issue of *Foreign Affairs*. The United States followed a policy of treating the advances to each nation as separate, distinct and independent of the loans to other nations. Loans were made to each nation solely for the need of that nation and upon the credits of that nation alone and resulted for each nation in a specific obligation of indebtedness which was independent of any other obligation.

Mr. Rathbone has stated the loan policy as follows:

> "The Allies and ourselves agreed that the financial requirements of each of the allied and associated Governments fell into three classes — according as they arose at home, in allied or associated countries, or in neutral countries. In general, the view of the United States Treasury was that the first class could and should be met by the Government concerned through taxation or domestic loans; that as regards the second class, each country (if necessary) should stand ready to provide or arrange to finance the requirements of its Allies for expenditures within its borders; and that expenditures in neutral countries should, for reasons of finance, be reduced to a minimum and should be met under some equitable arrangement by those countries able to provide the necessary finance in the required currency."
>
> Having determined the lender, the question as to which nation should borrow was settled thus:
>
> "This was that our loans should be made to each Allied Government to meet the cost of commodities purchased here for its own use; that we would not loan to one Government the dollars needed for purchases to be made by or on behalf of another Government, and that neither the financial condition of the borrower nor questions of political expediency in our own country should be factors in determining the Government to which our dollars should be loaned and whose obligations we would consequently take [3])."

The policy actually followed was therefore very different from the description given in the "Balfour Note" which suggested that the advances made to Great Britain were for purchases by other countries and that it was against British security that these other countries obtained loans.

The Secretary of the Treasury made a public reply regarding this interpretation in the Balfour Note on August 24,1922, in which he stated the following:

3) A. Rathbone,—Making War Loans to the Allies—Foreign Affairs, April, 1925, pp. 371—398.

"The statement that the United States Government virtually insisted upon a guaranty by the British Government of amounts advanced to other allies is evidently based upon a misapprehension. Instead of insisting upon a guaranty, or any transaction of that nature, the United States Government took the position that it would make advances to each Government to cover the purchases made by that Government and would not require any Government to give obligations for advances made to cover the purchases of any other Government. Thus, the advances to the British Government, evidenced by its obligations, were made to cover its own purchases, and advances were made to the other allies to cover their purchases 4)."

This view had already been clearly expressed two years earlier in a memorandum handed to the British Ambassador in June, 1920 by the Secretary of the Treasury, in which occurs the following statement:

"It has been at all times the view of the United States Treasury that questions regarding the indebtedness of the Government of the United Kingdom of Great Britain and Ireland to the United States Government and the funding of such indebtedness had no relation either to questions arising concerning the war loans of the United States and of the United Kingdom to other governments or to questions regarding the reparation payments of the central Empires of Europe .... The respective borrowing nations each gave their own obligations for the money advanced by the United States and no guaranty of the obligations of one borrowing nation was asked from any other nation. This is the understanding of the Treasury as to the status of the foreign obligations growing out of the war, now held by the United States 5)."

From the foregoing discussion it is evident that from the American point of view the advances to the Allies were loans authorized by Congressional Acts defined in contractual agreements providing for interest and repayment of principal and consisting of separate and individual obligations of the respective European Governments. They were neither gifts to individual countries nor a contribution to a common war chest.

FUNDING AGREEMENTS.

Efforts to obtain Cancellation.

Shortly after the armistice the European borrowers began to suggest that it would be advisable to have a general joint adjustment of all debts arising out of the war. The United States was invited to change

4) Combined Annual Reports, p. 4.

5) Combined Annual Reports, p. 5.

its policy of considering its creditor relation to each Ally by and for itself and to join in a discussion for an all-round cancellation. This invitation, coming as it did from countries who were both debtor and creditor, was politely but firmly declined.

This plan was first informally suggested by the British Chancellor of the Exchequer to the Assistant Secretary of the Treasury who was then in Europe. Mr. Crossby repudiated the proposal and the scheme was apparently dropped for the time being. The next one to take it up was France. It appeared as a suggestion in the letter of January 15, 1919, of Mr. Edouard de Billy, French Deputy High Commissioner, addressed to Secretary of the Treasury Glass, in the following form:

> "The French Government looks upon these questions as concerning all the Allies and demanding a general and simultaneous settlement, in which at the same time, would be taken into consideration the respective positions of each of the interested governments towards the others, and the reaction which the peace conditions might have on the financial possibilities of these governments [6])."

On January 29, 1919, Secretary Glass replied as follows:

> "I am entirely in accord with the view that the scheme should take into account the recoveries from the enemy which are likely to be effected by your Government."
>
> "I do not, however, feel that these considerations lead to the conclusion that discussion of the plans for repayment of debts due to the United States can advantageously be undertaken in Paris in conjunction with the Peace Conference. The conclusion I draw therefrom is rather that the United States should be willing to postpone discussions until the probable amount, time and form of recoveries from the enemy can be estimated and the financial position of the receiving Government considered in the light of this information."
>
> "After giving the views of your Government as expressed in your letter careful consideration, ... I feel that discussion of the scheme of repayment of debts due to the United States should take place in Washington as soon as possible after the financial terms of the peace settlement have been decided, or earlier in the case of any Government which so desires [7])."

The Allies were however not convinced that the Treasury meant what it said and they continued their efforts to obtain a general all-round discussion. It was learned that at the Peace Conference a meeting of

[6]) Combined Annual Reports of the World War Foreign Debt Commission, Fiscal Years 1922—1926. Washington, Government Printing Office 1927. p. 64.

[7]) Combined Reports, p. 65.

the Financial Drafting Committee appointed by the Executive Council of Ten, one of the allied Governments had suggested as an item in the agenda, the *consolidation*, the *reapportionment*, and the *reassumption* of the war debts. Thereupon the Treasury decided to define its point of view with greater precision and add a little emphasis. It announced that the idea of the debtors getting together and deciding on what was to be done about their obligations to the creditor was wholly unsympathetic, notwithstanding the fact that they were kind enough to invite the creditor to the party and would probably allow him a vote.

Mr. Rathbone, Assistant Secretary of the Treasury, wrote to M. de Billy as follows:

> "I have, however, to state most emphatically that the Treasury, which, as you are aware, is clothed by the Congress with full authority to deal with foreign loans which it has made, will not assent to any discussion at the peace conference or elseswhere, of any plan or arrangement for the release, consolidation, or reapportionment of the obligations of foreign Governments held by the United States.
>
> You will appreciate also that the Treasury cannot contemplate continuance of advances to any allied Government which is lending its support to any plan which would create uncertainty as to its due repayment of advances made to it by the United States Treasury [8])."

M. de Billy apparently saw to it that the second paragraph quoted above was brought to the attention of the French Government. He was able to convince Mr. Rathbone that nothing really serious had been intended by the Allied Government (Italy) who proposed to add the subject to the agenda. At the same time he apparently removed all uncertainty as to repayment by France of advances made or to be made by her; at least France received subsequently to the reply of M. de Billy on March 8, 1919, further loans aggregating $ 690 000 000.

France apparently found it a little difficult to continue to write letters advocating reapportionment with the left hand, while signing receipts for new advances with the right hand. At least the rôle of advocate of the plan was taken over by Great Britain. Mr. Basel I. Blackett, British financial representative in Paris, wrote to Mr. Rathbone also in Paris in connection with the question of the conversion of the demand obligation of the British Government into long term bonds and suggested once more a general reapportionment. A long correspondence ensued in which the British urged general cancellation of war debts and explained how wonderful the results would be for the world in general, and the United States replied that general cancellation

[8]) Combined Reports, p. 66.

apparently sounded better to the British than to the Americans. To the latter it seemed too much like an invitation to pay the war.

Finding the Treasury a little too difficult to convince, the British decided to address themselves to the President, apparently unaware that under Constitutional limitation the President does not have a free hand in such matters.

On May 21, 1920, Austen Chamberlain wrote to Assistant Secretary Rathbone at Paris, informing him that these were questions unsuited for departmental treatment, which should be taken up by the Prime Minister and the President.

On May 24, Assistant Secretary Rathbone replied that he had referred the letter to the Secretary of the Treasury and merely wanted to reiterate that the indebtedness of other Governments to the United States or Great Britain and payment of German reparations are in no way related to the postponement of interest upon and the funding of the obligations of the British Government held by the United States Treasury [9].

On August 5, 1920, Mr. Lloyd George wrote President Wilson that M. Millerand was willing to accept the view that German liabilities should be fixed at a figure which it was within the reasonable capacity of Germany to pay, but that France could not accept anything less than it was entitled to under the treaty unless its debts to its allies and associates in the war were handled in the same way. This declaration appeared fair to the British, but they could not remit any part of their French debt unless as part and parcel of all-round settlement of interallied indebtedness [10].

On November 3, 1920, President Wilson replied as follows [11]:

> "The Secretary of the Treasury is authorized by United States law to arrange for the conversion of the demand obligations of the British Government into obligations having a fixed date of maturity, in accordance with the agreement of the British Government to make such exchange on demand contained in its existing obligations..... It is highly improbable that either the Congress or popular opinion in this country will ever permit a cancellation of any part of the debt of the British Government to the United States in order to induce the British Government to remit, in whole or in part, the debt to Great Britain of France or any other of the allied Governments, or that it would consent to a cancellation or reduction in the debts of any of the allied Governments as an inducement towards a practical settlement of the reparation claims."

9) Combined Reports, p. 71.
10) Combined Reports, p. 72.
11) Combined Reports, p. 73—74.

"The United States Government entirely agrees with the British Government that the fixing of Germany's reparation obligation is a cardinal necessity for the renewal of the economic life of Europe and would prove to be most helpful in the interests of peace throughout the world; however, it *fails to perceive the logic in a suggestion in effect either that the United States shall pay part of Germany's reparation obligation or that it shall make a gratuity to the allied Governments to induce them to fix such obligation at an amount within Germany's capacity to pay. This Government has endeavored heretofore in a most friendly spirit to make it clear that it cannot consent to connect the reparation question with that of intergovernmental indebtedness.*"

"The long delay which has occurred in the funding of the demand obligations is already embarrassing the Treasury, *which will find itself compelled to begin to collect back and current interest if speedy progress is not made with the funding.* Unless arrangements are completed for funding such loans, and in that connection for the deferring of interest, in the present state of opinion here there is likely to develop a dangerous misunderstanding. *I believe it to be highly important that a British representative with proper authority proceed to Washington without delay to arrange to carry out the obligation of the British Government to convert its demand obligations held by our Treasury into long-time obligations.*"

The answer was undoubtedly different from what the British had expected. President Wilson merely confirmed the policy of the Treasury and announced once more that the United States would neither accept a general cancellation of debts nor admit that debts and reparations were politically related. The efforts to influence the United States in that direction having failed, the several European Governments were obliged to come to Washington to settle individually and to make funding agreements of their several debts to the United States.

Individual Agreements.

The policy which was to guide the Treasury in the settlement of the debts was defined by Congress on February 9, 1922, in an act entitled, "An Act to create a commission authorized under certain conditions to refund or convert obligations of foreign Governments held by the United States and for other purposes [12])."

The significant features of this act were the creation of a Debt Funding Commission to consist of five members, including the Secretary

[12]) Publication No. 139, 69th Congress, H. R. 8762.

of the Treasury, who should act as chairman and four others to be appointed by the President, by and with the consent of the Senate. The commission was authorized to negotiate individual agreements to fund the demand obligations into obligations maturing within 25 years and bearing $4^1/_4$ per cent interest, but not to cancel or to exchange bonds.

Section 2.

"That subject to the approval of the President, the commission created by Section I is hereby authorized to refund or convert and to extend the time of payment of the principal or the interest, or both, of any of the obligations of foreign Governments arising out of the World War, into bonds or other obligations of such foreign Governments in substitution for the bonds or other obligations of such Government now or hereafter held by the United States of America, in such form and of such terms, conditions, date or dates of maturity, and rate or rates of interest, and with such security, if any, as shall be deemed for the best interests of the United States of America; *Provided*, that nothing contained in this Act shall be construed to authorize or empower the Commission to extend the time of maturity of any such bonds or other obligations due the United States of America by any foreign Government beyond June 15, 1947, or to fix the rate of interest at less than $4^1/_4$ per centum per annum."

Section 3.

"That this act shall not be construed to authorize the exchange of bonds or other obligations of any foreign Government for those of any other foreign Government, or cancellation of any part of such indebtedness except through payment thereof [13])."

The foreign Governments were informed of the creation of the Committee and it was conveyed to them that the Committee desired to receive any proposals for the settlement or refunding of their obligations under the provisions of the act.

British Settlement.

The first country to start negotiations was Great Britain. The British delegation arrived in the fall of 1922 under the leadership of Stanley Baldwin, Chancellor of the Exchequer, and Montague Norman, governor of the Bank of England. It became manifest from the outset that no agreement was possible within the limits set by the Act of Congress of February 9, 1922, and the Commission was therefore forced to consider a more practical basis. The British contended that it would be impossible to repay the principal in 25 years and pointed out that the $4^1/_4\%$ interest would be higher than the market rate, which had fallen

13) Combined Reports, pp. 6—7.

to about $3^{1}/_{2}\%$, and they asked for $2^{1}/_{2}\%$. The American Commission offered 3% for the first ten years and $3^{1}/_{2}\%$ thereafter, and proposed payment of principal over 62 years. This meant the equivalent of a cumulative sinking fund of $^{1}/_{2}$ per cent.

The meeting adjourned in order to permit the British Government representatives to return to England for consultation. On February 1, 1928 the British Ambassador at Washington appeared before the Commission and stated that he had been instructed by his Government to reply to the Commission that the British Government had accepted in principle, on January 31, 1922, the terms suggested by the Commission.

In accepting these terms the American Commission exceeded its authority under the provisions of the act, and was forced to request an amendment from Congress. Congress accepted the agreement on February 7, 1922, and passed an amending act giving the Debt Funding Committee larger discretionary powers [14]).

Section 1 was amended to read:

> "to consist of eight members one of whom shall be the Secretary of the Treasury who shall serve as chairman and seven of whom shall be appointed by the President, by and with the advice and consent of the Senate. Not more than four members so appointed shall be from the same political party."

The second section was amended, taking out the proviso as to the maximum length of maturity and minimum interest, and in its place came the provision of the British agreement.

The Commission was now authorized to make agreements to the best interests of the United States without being restricted to minimum conditions. The first agreement with the British became a model for subsequent negotiations and the United States Government tried to obtain acceptance of agreements as nearly similar to the British agreement as the financial conditions of the borrower would allow. In each case the principal was to be repaid over 62 years and the interest rate was fixed at what was considered to be a fair rate of interest for first class governmental credit over many years. Agreements were reached with Finland, Hungary, Lithuania and Poland, with some modification to relieve the burden in earlier years. It is to be noted that with the probability of the average rate of interest over 62 years not varying much from $3^{1}/_{2}\%$, these agreements provided for payment in full.

After these agreements were accepted and ratified, there occurred a lag in the negotiations. They were resumed in 1925 but these later negotiations had a different character. There was reluctance on the

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14) Amendment, Public. No. 445, 67 th Congress, H. R., 14 254. pp. 105, 106, Combined Report.

part of the other allies to undertake negotiations although a determination of the charges of their debts was absolutely essential to balancing of their budgets and the stabilization of their currencies. This reluctance was perhaps inspired by fear that the United States would insist on terms similar to Great Britain's.

The United States decided to help them overcome their reluctance. In 1925 when London was closed to foreign capital issues, during the execution of the plan to return to gold standard, the United States was the only available market for the capital needed for European restoration. Early in 1925 after much consideration it was decided that it was contrary to the best interests of the United States to permit foreign Governments which refuse to adjust or make reasonable effort to adjust their debts to the United States, to finance any portion of their needs in this country. States, municipalities, and private enterprises within the country concerned were included in the prohibition.

The Government then announced that it would object to flotation in the United States of both private and government loans to a country which had not negotiated a settlement of its debts. This meant theoretically the closing of the only available money market and apparently provided enough pressure to encourage the European Governments to commence negotiation. The objection expressed by the Government against the flotation of loans in the American market did not stop completely the flow of American capital. A considerable amount of money became available through processes of indirect financing, — such as the arrangement made between the Swedish Match Company and the French Government whereby the latter was provided with money by means of a loan of the former floated in the American market. Never the less, the restriction proved enough of an obstacle to influence the Allied Governments. In any case during the summer and fall of 1925, delegates from Belgium, France and Italy met with the Debt Funding Committee.

In these negotiations the Debt Funding Commission made full use of its discretionary powers granted by the Congressional Act of February, 1923. It definitely formulated and made public the principle of "capacity to pay" which was to serve as the basis of negotiation for further debt funding agreements, and which had already partly guided its previous settlements.

This principle was expressed in a statement issued by the American Commission on October 1, 1925, with reference to the French negotiations: "We believe it is fully recognized by the Commission that the only basis of negotiations fair to both peoples is the principle of the capacity of France to pay". The principle of "*capacity to pay*" as interpreted by the Debt-Funding Commission is stated in the Annual Report of the Secretary of the Treasury for the year ending June 30, 1925 [15]):

"While the integrity of international obligations must be maintained, it is axiomatic that no nation can be required to pay to another government sums in excess of its capacity to pay. The Commission in its settlement with Great Britain, made on June 19, 1923, and in subsequent negotiations or settlements has adhered to the principle that the adjustments made with each Government must be measured by the ability of the particular Government to put aside and transfer to the United States the payments called for under the funding agreement."

"Nor does the principle of capacity to pay require the foreign debtor to pay to the full limit of its present or future capacity. It must be permitted to preserve and improve its economic position, to bring its budget into balance and to place its finances and currency on a sound basis, and to maintain, and if possible, to improve the standard of living of its citizens. No settlement which is oppressive and retards the recovery and development of the foreign debtor is to the best interest of the United States or of Europe."

The application of this principle to particular debt settlements is explained in the Secretary's report as follows:

"The Commission has accordingly permitted the foreign debtor to repay the principal amount of its debt, irrespective of the maturity or the character of the indebtedness, over a period of 62 years, or nearly two generations. There is no government unable to make the principal payments required on such a basis. It is felt that the lack of capacity of a government to fund its debt on the same terms as Great Britain can be readily met by appropriate adjustment or modification of the rates of interest to be paid during the period of repayment of principal. And in examining the capacity of payment the Commission looks not only at the immediate capacity, but estimates so far as it is able to do so, the future development of the nation concerned."

Belgium.

The first country to take up negotiations was Belgium. The situation in relation to the Belgian debt differed from that of other countries because of agreements made at Paris during the Peace Conference. Largely at the insistence of President Wilson, Belgium had reduced her claim for war damages from $ 1,000,000,000 to $ 500,000,000 and had abandoned her claim for $ 6,200,000,000 gold marks for redemption of German paper marks forced into circulation in Belgium during the

15) Combined Reports, p. 37—38.

war. In exchange for this reduction of her claims, Great Britain, France and the United States had agreed to forego re-payment on their pre-armistice loans and to look to German reparations for compensation. This arrangement was incorporated in Article 232 of the Treaty of Versailles. The Treaty was not ratified by the United States. The Dawes Plan contained the provision that 5% of the annual payment for reparations after certain deductions should be a charge providing the repayment of the Belgian pre-armistice debt. France and Great Britain agreed to accept their proportion, but the Debt Funding Committee under the provision of the Act could not accept substitution of reparations for Belgian obligations. It was therefore agreed that the sum due to her was to be paid to Belgium and that the United States was to receive from Belgium a series of payments over 62 years, repaying the principal, interest payment being waived in consideration of the promise made in Paris, although legally there was no such obligation. The post-armistice debt was to be paid with an arbitrary fixed sum for interest during the first ten years, and 3½% thereafter [16]).

France.

The first French mission under Mr. Caillaux was not successful, the principal difficulties arising from the fact that the French insisted on a safeguarding clause which the Debt Funding Committee was unwilling to accept. The French wanted to make payment of the yearly sums contingent upon the payment in full of German reparations and provided in the safeguarding clause the following sentences:

> "It is therefore agreed that if it shall be proved that these payments are beyond the capacity of the French Government, taking into account all of its essential elements, then the payments are to be jointly reviewed by the two governments."

Mr. Winston, in his Times article, suggests that there was a difference of opinion as to the meaning of this phrase right from the start. This wording merely suggested that French capacity to pay should be considered in the future as it had been in the past. French total capacity to pay would, if a reduction in German payments was compensated for by other factors, leave the total the same, and there would therefore be no need for revision. But France intended to interpret this clause to mean that for each decline in German reparations there was also to be a proportional reduction in French debt payments. But as this was another effort to link the debt payments directly with reparations, the Debt Funding Committee was forced to decline.

The second mission under Mr. Bérenger arriving in April was more successful. It signed an agreement providing for slightly lower initial

[16]) Combined Reports, p. 41—42.

payments, \$ 30,000,000 in the beginning and slightly higher payments later, and contained no safeguarding clause. This Mellon-Bérenger agreement provides for the funding of the total French indebtedness and includes the French debt for the payment of war material of \$ 407,000,000 which becomes due next August. France has paid from the beginning the interest of approximately \$ 20,000,000 per year. Since signing the Bérenger agreement the French Government has paid to the United States not only the \$ 20,000,000 on this loan, but also an additional \$ 10,000,000 which makes the total exactly the sum provided for in the Bérenger agreement. But the agreement itself has never been ratified by the French Parliament. The American position is that unless ratification takes place before next August, France will have to pay the United States Government \$ 407,000,000. Mr. Poincaré will therefore either have to make his Parliament swallow a debt agreement without a safe-guarding clause, or to build a reserve fund, or to find a means of marketing enough German bonds to enable him to pay this sum [17]).

Italy.

The Italian mission arrived well provided with statistical studies to prove Italy's extreme poverty, and they were so successful in their task that the Debt Funding Committee accepted an agreement which provided for interest payments in the beginning years of $^1/_8$ per cent and in the final period of 2 per cent, making an average of $^4/_{10}$ per cent.

The settlements with the remaining smaller countries were largely based on the British agreement, but provided for lower interest payment in the early years. The only debts left unfunded were those of Russia, a country which the United States did not recognize, Armenia, which had ceased to exist, Austria, which had obtained a moratorium, and Greece.

Greece.

The Greek settlement was finally concluded in December, 1927 and negotiated with the Treasury Department with the approval of the State Department. The reasons for the delay were the rather unique features present in this case, the Greek Government representatives arriving with the intention to receive rather than to pay. The advances made by the United States totaled \$ 15,000,000, which, with accrued interest up to January 1, 1928, represented a total of \$ 18,127,922. Greece claimed that she was entitled to further advances on the basis of the agreement made in February, 1918. In this agreement the United States, Great Britain and France had promised to advance in equal shares the sum of 715,000,000 francs for the purpose of financing Greek

17) Congress has meanwhile authorised postponement of payment to Aug. 1930.

military operations against the Central Powers. Credits to the amount of $ 48,236,629 had been established in favor of Greece by the Treasury of the United States with the approval of President Wilson. As only $ 15,000,000 had been advanced and the Greek Government could prove that its expenditures for war purposes surpassed the total of the advances made by the three countries, the Greek Government claimed the right to receive an additional loan. On the other hand, the United States Government took the position that the events which had transpired since November, 1920 relieved it from making any further advances.

The agreement reached was a compromise, — the United States to advance an additional sum which would bring the total up to $ 31,826,910, and thus equal the sum advanced by Great Britain. The existing debt as per the first of January, 1928 was funded and was to be repaid over a period of 62 years, the yearly payments mounting from $ 40,000 during the first year, to $ 350,000 during the last 52 years. The additional loan of $ 12,167,000 was to be repaid out of a sinking fund in 25 years, with interest at 4 per cent.

Summary.

The work of the Debt Funding Commission was therefore substantially completed when its term expired on February 9, 1927, the Greek settlement being the only agreement made subsequent to its dissolution.

In many respects the debt funding agreements with the various European countries are practically the same. Their common characteristics are:

1. Financial clauses which fix the total amount of the funded indebtedness, the interest rate and the annuities the debtor government will be required to pay.

2. The distribution of these annuities over a period of sixty-two years.

3. The use of bonds payable to the United States on the part of the debtor Government. These bonds are exempt from taxation by the foreign Government, and the United States has the privilege of exchanging them with the debtor governments for marketable obligations.

Apart from the similarities in the agreements there are differences in the rates of interest and the degree of cancellation. Generally speaking the indebtedness to the United States results from two types of loans, those to England, France, Italy, Belgium, Russia, and Serbia were made primarily for the purpose of financing war operations, those to Finland, Lithuania, Latvia, Esthonia, Poland, Austria, Czechoslovakia and Rumania were primarily for the purpose of war relief and reconstruction. The British-American agreement, although funding a loan of the first type, has served as the basis for the agreements made for loans of the latter type. The other countries of the first group have succeeded in obtaining a more favorable settlement than that made with Great Britain.

The aggregate annual payments of all the thirteen countries (except Greece) that have entered debt funding agreements are as follows [18]:

1 st 10 years, ...	$ 233,000,000
2 nd 10 „	347,000,000
3 rd 10 „	365,000,000
4 th 10 „	377,000,000
5 th 10 „	393,000,000
Last 12 years, ...	414,000,000

The debt funding agreements embodied the general principles of the American policy as laid down in the Act creating the Debt Funding Committee. There was no general cancellation and no transfer of bonds and no admission of any relation between debt payments and reparations. Separate agreements were made with the different Governments and in each case the form and appearance of re-payment of principal was maintained. All agreements provided for repayment of the capital sum in 62 years. The doctrine of the sanctity of international obligations had been preserved. The Allies had been prevented from doing in a dignified manner what they had criticized the Soviet Government for doing when it had repudiated Russia's foreign loans.

The American thesis had been successfully maintained. The preservation of the legal fiction was a great satisfaction to those who believe in legal fiction, but the economic realities remain. The theoretical sanctity of obligations when practically applied became limited by the principle of capacity to pay, and led to funding agreements which, because of their low interest rates, provide for a considerable cancellation. And whatever the principle of the independence of debt payments from reparations, the fact remains that the allied payments are largely derived from the receipts from German reparations.

The Effect of Payments on the United States.

Notwithstanding the magnitude of the sums involved, the effect of the debt payments on the economic life of the United States is not likely to be considerable.

The total for the allied debts is approximately $ 11,000,000,000, or a little more than three per cent of the national wealth, estimated at $ 320,000,000,000. Even the private foreign investments abroad are larger than the foreign debts and amounted on January 1st, 1929 to approximately $ 15,000,000,000.

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[18]) Foreign Policy Association — The United States and the War Debts—a Memorandum—p. 18.

If we consider the question from the point of view of national income we find that the average payment of $ 233,000,000 during the first decade equals 1/4 of 1 per cent of the estimated national income of $ 90,000,000,000, and if distributed evenly over the population amounts to $ 2 per capita.

Viewed from the point of view of fiscal policy, the debt payments amount to 5.8 per cent of the national revenue of $ 4,000,000,000. If we take the receipts from income tax alone, the percentage of course, becomes considerably higher and amounts to approximately 12 per cent of a revenue of $ 1,982,040,088 in 1926. The total public debt was on January 1st, 1928, $ 17,309,749,135.86, a reduction of $ 726,603,315.95 since the first of January, 1927. If the present rate of debt reduction can be maintained it is likely that the total of the debt will be extinguished in the next twenty years, so that the Federal Government of the United States will be practically free from debt long before the 62 year period.

Viewed from the point of trade and the balance of payment, the debt payments do not run much larger. They amount to 5.8 of the imports ($ 4,400,000,000) and 4.8 of the exports of $ 4,800,000,000, or less than the yearly fluctuation. If the balance of trade is to be affected at all it will probably be in the form of reduced agricultural exports and in an increase of imports of raw materials and tropical foodstuffs, a change which is in line with the trend of historical development; but there is very little indication that the payments will actually affect merchandise imports and exports. The absorption can be quite easily taken care of by the invisible imports, such as tourist expenditures, which have been increasing every year and amounted for the year 1927 to $ 770,000,000. The payments have not only been absorbed successfully without the destruction of the American economic structure, but the United States is making investments abroad to the sum of approximately $ 1,000,000,000 per year. Interest payments on foreign private investments are now twice the sum to be received from debt payments.

Whatever these payments may mean to Europe in terms of a reduced standard of living, to the United States they are a little sum for pin money which, although pleasant, in itself makes very little difference one way or the other.

Criticism of the Debt Settlements.

The American Government acting through Congress and the Debt Funding Committee has not escaped serious criticism of its policy from its own citizens. It may be safely said that the agreements are approved by the silent majority in so far as it understands, but a number of individuals have given vocal expression to their disapproval. These criticisms can be roughly classified under the following headings:

1. That the debts should have been cancelled.
2. That the payments demanded are too high.
3. That the payments demanded are too low.

The critics who demand complete cancellation have attacked the Government for its extreme legalistic point of view. They have been forced to admit that as far as the actual credit agreements are concerned they were in form and substance loans providing for payment of principal and interest. But what the critics object to is that the Government has not been able to see beyond the legal formulation and has been blind to the moral aspects. They contend that the war debts are not like commercial debts, simply a question of law or even of equity, but primarily a question of morality. Their contention is that the advances made by the United States Government to the Allied Powers were in reality not loans, but subsidies, — a contribution to a common cause.

This point of view is represented by Representative Andrews, Member of the House, and by Mr. Peabody in his open letter to the President. Mr. Peabody refers to the wording of the Liberty Loan Act, which says: "For the purpose of more effectually providing for the national defense". He deduces from this that the money spent in Europe by the Allies was largely spent for the American defense. Both he and Mr. Andrews draw attention to the speeches made in Congress during the debate of the Liberty Loan Act which indicate that many members considered the advances to be made to the Allied Governments as gifts and not as loans. The advocates of cancellation also point to the fact that for a long time after the American declaration of war the United States was unable to participate effectually on the western front and that therefore America's battle was fought with American bullets, but by Allied soldiers.

The discussion which has ensued between Secretary Mellon and advocates of cancellation has not convinced either party. It was a fruitless discussion because both defended a position already taken and started from a different point of view. The secretary points out that the debts were legally contracted and that re-payment was legally due, which is true, and his opponents said that to ask for re-payment was immoral, which is perhaps also true. But while there is little difference of opinion as to what the law is in the case, there is a great deal of difference as to what is moral in the case.

A good case might perhaps be made for cancellation on moral grounds, but it would have to be in terms of a moral judgment on the effects of the payments rather than on the basis of a moral judgment on the origin of the loans. As Mr. Olmstead has pointed out in his article in The Nation, — the result of the debt agreement is that the grandchildren of the surviving British and French soldiers will be asked by the grandchildren of the American soldiers to pay for the bullets which their grandfathers used in a joint fight.

The case for cancellation will remain weak as long as its advocates argue in favor of it on the basis of the theory of common cause. This theory of the common cause cannot stand the test of actual history. The United States came into the war for a specific reason of its own. The casus belli was the unrestricted submarine campaign. The United States did not become an ally, but merely an associated power, and the assumption that it assumed a full share of all obligations as if it had been a partner from 1914 does not hold.

The United States had no more a common ultimate cause with the Allies than the Allies had a common cause among themselves. During the first three years of the war she suffered as much from allied interference with her shipping as she did from German interference. After she entered the war the immediate common objective was the defeat of Germany, but the ultimate objective differed in all nations. At all times the Powers combined for the purpose of defeating Germany strove to maintain their separate national interests. The war aims of the United States were sharply at variance with those of the Allies, as the secret treaties showed. So great was the difference in objectives that it was not even possible to make a common peace [19]).

Apart from the critics of the Government who asked for cancellation, there have been others who asked not for total cancellation, but for revision. Among this group there is Newton D. Baker, former Secretary of the Navy under the Wilson Administration, Professor Taussig, and Dr. John A. Ryan, of the Catholic University at Washington. The views of this group have been most clearly expressed in the open letter of the Political Science Faculty of Columbia University, addressed to Mr. Mellon, the Secretary of the Treasury, in December, 1926, and later endorsed by the Faculty of Princeton University.

Like the advocates of cancellation, this group also bases some of its objections on moral grounds. However, their emphasis is on the results of the payments to be made, rather than on the origin of the agreement. In the open letter occurs the following paragraph:

> "Fulfilment of the debt agreements necessarily imposes on European debtors hardship much greater than the benefits that accrue to America. Great Britain, France, Italy, and other European countries are already bearing burdens which strain their courage and strength. Taxation, in proportion to income and population, is between two and three times heavier in England, France

[19]) See Howland, Charles P.—Survey of American Foreign Relations, p. 412.

and Italy than it is in the United States. Payments that could at best mean a paltry gain for most American taxpayers mean to the over-taxed debtors a crushing load" [20]).

Their objections to the Funding Agreements are the following: that they entail too heavy a burden on the debtors; that no distinction has been made between loans for different purposes, such as loans for strictly war purposes and for relief and reconstruction; that the principle of capacity to pay led to manifest injustice because calculated on the basis of 4½ per cent, the present value of the British payments is 82%, of the Belgian, 54%, of the French, 50%, and of the Italian payment, 26%.

For these reasons this group of critics demand a general revision which would envisage the problem of debt payments as a world problem rather than as a series of separate individual agreements.

Secretary Mellon granted in his reply that no distinction had been made between different kinds of debts, but he pointed out that the present value of the debt settlements calculated at 5% is, except for Great Britain, either less than, or approximately the same as, the amounts borrowed after the armistice. This means that the pre-armistice loans have practically been cancelled. Mr. Mellon says:

> "France's after-war indebtedness with interest amounts to \$ 1,655,000,000; the Mellon-Bérenger settlement has a present value of \$ 1,680,000,000. Belgium's postarmistice borrowings with interest were \$ 258,000,000, and the present value of the settlement is \$ 192,000,000. The postarmistice indebtedness of Italy with interest is \$ 800,000,000, and the present value of its debt settlement is \$ 426,000,000. The principal of Serbia's postarmistice indebtedness aggregates \$ 16,175,000, and the present value of its debt settlement is \$ 15,919,000. The loans to Finland, Estonia, Latvia, Lithuania, Poland, Czechoslovakia, Hungary, Austria, and Rumania were all made after the armistice."

With reference to the injustice resulting from the application of the principle of capacity to pay, to which the professors have drawn attention, Secretary Mellon expressed regret that the learned gentlemen had not suggested an alternate plan. If they felt that the allies should have been treated with equal leniency they might at least have suggested what the basis was to be. Should the British debt have been reduced to a similar percentage as that of Italy, paying only 26% or should the Italian debt have been increased to that of Great Britain, paying 86%?

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[20]) Gerould, James Thayer, and Laura Shearer Trumbull—Interallied Debts and Revision of the Debt Settlements, p. 132.

Secretary Mellon also criticized the idea that the debts payments involved too heavy a burden.

> "It is obvious that your statement that the debt agreements which we have made impose a tremendous burden of taxation for the next two generations on two friendly nations, is not accurate, since the sums paid us will not come from taxation, but will more than be met by the payments to be exacted from Germany."

This was an extraordinary admission to make. It was the admission that notwithstanding the legal fiction maintained for purposes of political expediency that debts and reparations are unrelated, the economic reality makes the United States the final receiver of reparations payments.

The moral issues involved are not mentioned in Secretary Mellon's reply. He insists on remaining on firm legal ground, and is as reluctant to talk morality with the advocates of revision as he was to talk ethics with the advocates of cancellation.

The third group of critics has attacked the Government, not because it asked too much, but because it asked too little, particularly in the case of France and Italy. This point of view has been most clearly expressed by Mr. Henry T. Rainey in the hearings of the Committee on Ways and Means of the House on the settlements with these two countries. Mr. Rainey considered the agreements made with these countries entirely too lenient und severely criticized the Debt Funding Committee's conception of "capacity to pay". He pointed out that the highest authority in the world had calculated Germany's capacity to pay to be around 600 million dollars, while, according to the Debt Funding Agreements the capacity of all of the allies combined would not be much more than 200 million dollars.

This opinion that the payments are too low, although not voiced as often and as vigorously as the criticism that the payments are too high, is rather wide spread. Most people have neither the time nor the back-ground to go into analysis in detail, and lack sufficient training to follow the highly intricate calculations of amortization and present value of future payments, but there is a general feeling that the loans were loans and should be paid.

The present attitude of the average American toward Europe does not tend toward great generosity; whatever enthusiasm may have existed during the time the United States was at war has cooled down. With the peace a reaction set in and his present feelings are only moderately friendly. He is not well enough informed to understand post-war European history, but there are several things which he definitely does not like. To him the Treaty of Versailles meant a complete repudiation of the principles of the fourteen points. He sees, perhaps quite wrongly, in Great Britain the main obstacle to naval disarmament, and in France the main obstacle to land disarmament. In Italy he sees a potential danger for the peace of Europe and a type of government for which he has no sympathy. The tremendous outlay of European military expenditures does not convince him that his former allies are as poor as they make out to be, and he sees no reason why he should pay more taxes in order that Europe may be better armed.

Whether his attitude is justified or not, it is the attitude of the mass of American people, and this attitude will have to change before a greater leniency may be expected. Now that the settlements are made, Mr. Average Citizen is glad to forget them. The public is satisfied because it has been told that the principal will be repaid, and "Congress" is satisfied because it has been able to force Europe at least temporarily to the American policy of separate individual agreements and no relation between debts and reparations, a policy which, whatever its advantages for the United States, seems in complete contradiction with the economic fact that a large part of German reparations ultimately finds its way to the American Treasury.

The Future of the Debts.

But what about the future? The great political struggle over the division of the war-cost has not ended. The debtfunding agreements between the U. S. and the former Allies enumerated above represent the second stage in the negotiations, the first stage having been occupied with the abortive efforts to obtain general cancellation. There is, however, nothing to indicate that this second stage will be the last stage. The final allocation of obligations has not yet been obtained and it is not impossible that the future will see a further shifting of the burden and the assumption of a greater share on the part of the United States.

The previous analysis of the debt situation is therefore incomplete and does not represent the final picture. Three factors at present undetermined are bound to bring about a change in the near future. They are: the revision of the Dawes-plan proposed by the Young committee, the efforts of Mr. Poincaré to obtain ratification of the Mellon-Bérenger agreement and the public utterances of Mr. Snowden which seem to indicate that he would like to ask for a revision of the Anglo-American settlement.

If the news from Paris may be trusted the official American theory regarding the absence of any relation between debts and reparations has suffered another severe shock. The American experts have apparently been less afraid of the realities than the American government and they have been able to cooperate in the making of a plan which admits the direct connection between Allied payments for debts and Allied receipts from reparations. The total of German obligations has been definitely and finally determined, but it seems to have been calculated not so much on the basis of her capacity to pay, which nobody can predict, as on the basis of the Allies' necessity to receive. It appears to have been obtained by adding to the minimum which the Allies will take for reparations in the strict sense the total of their obligations to the United States. Apart from this definite connection between reparations and debts, the Young plan is of importance for the Euro-American debt situation because it creates the possibility for the commercialization of a part of the German payments. News of this linking of debts and reparations has reached Washington and has called forth rumblings from disturbed senators who foresee with fear and tremulation the final explosion of the comforting legal fiction. It is, however, not likely that the Hoover administration with its reputation for hard common sense and ability to face facts will be prevented from giving Europe the cooperation necessary to carry out the Young plan.

The second factor mentioned is the ratification of the Franco-American debtfunding agreement. Mr. Poincaré is at present engaged in the difficult task of securing ratification of the Mellon-Bérenger agreement. The main difficulty consists in the absence from that agreement of a safeguarding clause which would have protected France from ever having to pay more than she was to receive from Germany. Acceptance of the Young plan will give France the same security in a different form and indications are that Mr. Poincaré will succeed in obtaining ratification either by parliament or by decree before the $ 407 million owing to the U. S. for war material becomes due.

The last factor which need be mentioned is the probable attitude of the new British government. Mr. Philip Snowden has indicated that he considers the existing Anglo-American agreement too unfavorable for Great Britain and would like to ask for revision. Great Britain has a better claim for revision than any other power, as she is the only one of the larger Allies who is paying her debt in full. But it would be politically most inexpedient to ask for revision just now.

Statesmanship is not merely a question of sound economics and strength of moral conviction, but it is above all an intuitive understanding of political possibilities and a fine feeling for choosing the right moment. The present is not the right moment. There is little hope of obtaining a revision just now. The present Congress is not likely to be any more lenient than the previous one and too much occupied with internal problems to be in a mood for a generous consideration of Great Britain's difficulties.

If Great Britain wants to obtain a more lenient agreement it must first create a more favorable public opinion. A mere request based solely on the justice of her claim is not going to bring results. What is needed is a practical proposal that will not be too expensive for the American taxpayer. A more favorable opportunity would present itself if the British government could first succeed in bringing about a definite reduction in naval armaments. Not only would this improve the general attitude toward Great Britain in the United States but it would also provide a practical talking point. The reduction in receipts from Great Britain could then be balanced by a reduction in naval expenditures and the American taxpayer could afford to be generous without having to pay for it. This applies not only to Great Britain but also to the other debtors. If Europe wants the United States to make further reductions it will have to make business-like proposals which the American government can accept without having to increase the taxburden of its citizens and which offer the nation clear and substantial benefits.

The form of proposal most likely to receive a favorable reception would be an offer to pay in a lump sum instead of over a long period of years. The American people will show themselves exceedingly reluctant to accept a downward revision of the yearly payments but they will undoubtedly be willing to grant a very substantial discount in calculating present values of future payments. Such a proposal would be an offer of a cash benefit to the present generation of American taxpayers in exchange for promises of doubtful value to pay their grandchildren. The American business sense can be trusted to see the advantage of such a proposal and to allow a very substantial discount. But the possibility of making such offers rests in last instance on the possibility of the commercialization of the present debts and reparations.

The road toward further readjustment must therefore go through the Young plan. But if Europe wants to succeed in making the United States assume a larger part of the burden of the world catastrophe it must open its eyes to the political realities of American life, and cease its criticism of American blindness to the economic realities of European life. Only businesslike proposals from individual governments presented in a form that takes account of American prejudices and avoids emphasizing the relation between debts and reparations are likely to find acceptance. If Europe is capable of that much statesmanship it will find the people of the United States willing to do their share in the final liquidation of the horrible nightmare of useless destruction of life and wealth which almost caused the complete annihilation of Western civilization.

Appendix War Debts to U. S.

Country	I Pre-Armistice Cash Loans	II Post-Armistice Cash Loans	III Total CashLoans	IV War & Relief Supplies
Armenia ..				$ 11,959,917.49
Austria ...				24,055,708.92
Belgium ..	$ 171,780,000.00	$ 177,434,467.89	$ 349,214,467.89	29,872,732.54
Cuba	10,000,000.00		10,000,000.00	
Czechosl. .		61,974,041.10	61,974,041.10	29,905,629.93
Estonia ...				13,999,145.60
Finland ...				8,281,926.17
France ...	1,970,000,000.00	1,027,477,800.00	2,997,477,800.00	407,341,145.01
G. Brit. ...	3,696,000,000.00	581,000,000.00	4,277,000,000.00	
Greece		15,000,000.00	15,000,000.00	
Hungary ..				1,685,835.61
Italy......	1,031,000,000.00	617,034,050.90	1,648,034,050.90	
Latvia				5,132,287.14
Liberia ...		26,000.00	26,000.00	
Lithuania .				4,981,628.03
Nicaragua				166,604.14
Poland ...				159,666,972.39
Rumania .		25,000,000.00	25,000,000.00	12,922,675.42
Russia	187,729,750.00		187,729,750.00	4,871,547.37
Jugosl. ...	10,605,000.00	16,175,465.56	26,780,465.56	24,978,020.99
Total	$ 7,077,114,750.00	$ 2,521,121,825.45	9,598,236,575.45	$ 739,821,776.75

Country	IX Funded Interest	X Funded Debt	XI Time	XII Interest I.P.[1]	XIII Interest F.P.[2]	XIV Interest Aver.
Armenia						
Austria						
Belgium	40,750,429.94	417,780,000	62	.3/4	3.5	1.8
Cuba						
Czechosl.	23,120,328.97	115,000,000	62	3.0	3.5	3.3
Estonia	1,763,777.85	13,830,000	62	3.0	3.5	3.3
Finland	718,073.83	9,000,000	62	3.0	3.5	3.3
France	685,000,000.00	4,025,000,000	62	1.0	3.5	1.6
G. Brit.	525,181,641.56	4,600,000,000	62	3.0	3.5	3.3
Greece	3,127,922,00	18,125,000	62		1.4	1.25*
Hungary	253,164.39	1,939,000	62	3.0	3.5	3.3
Italy..................	394,130,802.04	2,042,000,000	62	.1/8	2.0	0.4
Latvia	642,712.86	5,775,000	62	3.0	3.5	3.3
Liberia						
Lithuania	1,048,371.97	6,030,000	62	3.0	3.5	3.3
Nicaragua						
Poland	18,893,027.61	178,560,000	62	3.0	3.5	3.3
Rumania	8,477,878.67	44,590,000	62	3.0	3.5	3.3
Russia						
Jugosl.	11,819,226.00	62,850,000	62	.1/8	3.5	1.0
Total	1,714,927,357.69	11,540,479,000				

[1] Initial Period. [2] Final Period. * Approximately.

Country	V Total Debt	VI Repay of Principal	VII Net Debt	VIII Date of Agreement
Armenia ..	11,959,917.49		11,959,917.49	
Austria ...	24,055,708.92		24,055,708.92	
Belgium ..	379,087,200.43	2,057,630.37	377,029,570.06	8/18/25
Cuba	10,000,000.00	10,000,000.00		
Czechosl. .	91,879,671.03		91,879,671.03	10/13/25
Estonia ...	13,999,145.60		13,999,145.60	10/28/25
Finland ...	8,281,926.17		8,281,926.17	5/ 1/23
France ...	3,404,818,945.01	64,302,901.29	3,340,516,043.72	4/29/26
Gr.Brit. ..	4,277,000,000.00	202,181,641.56	4,074,818,358.44	6/19/23
Greece	15,000,000.00		15,000,000.00	12/ 7/27
Hungary ..	1,685,835.61		1,685,835.61	4/25/24
Italy......	1,648,034,050.90	364,319.28	1,647,669,731.62	11/14/25
Latvia	5,132,287.14		5,132,287.14	14/24/25
Liberia ...	26,000.00		26,000.00	
Lithuania .	4,981,628.03		4,981,628.03	9/22/24
Nicaragua .	166,604.14	138,721.15	27,882.99	
Poland ...	159,666,972.39		159,666,972.39	11/14/24
Rumania .	37,922,675.42	1,798,632.02	36,124,043.40	12/ 4/25
Russia	192,601,297.37		192,601,297.37	
Jugosl. ...	51,758,486.55	720,600.16	51,037,886.39	5/ 3/26
Total	$ 10,338,058,352.20	$ 281,564,445.83	$ 10,056,493,906.37	

Country	XV Ann. Paym. FD	XVI	XVII Total Payments	XVIII	XIX % Reduction **	XX	XXI
	I. P. [1]	F. P. [2]	Int.	Int. & Prin.	5%	4¼%	3%
Armenia ..							
Austria ...							
Belgium ..	3,840,000	12,861,850	310,050,500	727,830,500	54	46	+28
Cuba							
Czechosl. .	3,000,000	5,884,725	197,811,433	312,811,433	33	21	— 8
Estonia ...	483,000	548,550	19,501,140	33,331,140	18	18	— 7
Finland ...	315,000	359,185	12,695,055	21,695,055	18	18	— 7
France ...	30,000,000	125,000,000	2,822,674,104	6,847,674,104	58	52	+32
G. Brit. ...	161,000,000	187,250,000	6,505,965,000	11,105,965,000	28	17	— 7
Greece	40,000	350,000	2,172,077	20,330,000		64-½*	
Hungary ..	67,770	78,885	2,754,240	4,693,240	19	18	— 7
Italy......	5,000,000	80,988,000	365,677,500	2,407,677,500	79	75	+62
Latvia	201,250	235,980	8,183,635	13,958,635	18	18	— 7
Liberia ...							
Lithuania .	210,900	239,855	8,501,940	14,531,940	18	18	— 7
Nicaragua .							
Poland ...	5,916,800	9,315,000	257,127,550	435,687,550	29	18	— 7
Rumania .	200,000	2,249,020	77,916,260	122,506,260	34	21	— 8
Russia							
Jugosl. ...	200,000	2,406,000	32,327,635	95,177,635	75	32	+52
Total	210,474,720	427,767,050	10,623,358,069	22,163,869,992			

* Reduction on the basis of the present value calculated at 4%.

** Amount of cancellation calculated on the basis of the present value of the 62 payments. [1] Initial Period. [2] Final Period.

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