

THE TREATY OF PEACE

I. PARIS (1919)

THE power to become habituated to his surroundings is a marked characteristic of mankind. Very few of us realise with conviction the intensely unusual, unstable, complicated, unreliable, temporary nature of the economic organisation by which Western Europe has lived for the last half-century. We assume some of the most peculiar and temporary of our late advantages as natural, permanent, and to be depended on, and we lay our plans accordingly. On this sandy and false foundation we scheme for social improvement and dress our political platforms, pursue our animosities and particular ambitions, and feel ourselves with enough margin in hand to foster, not assuage, civil conflict in the European family. Moved by insane delusion and reckless self-regard, the German people overturned the foundations on which we all lived and built. But the spokesmen of the French and British people have run the risk of completing the ruin, which Germany began, by a Peace which, if it is carried into effect, must impair yet further, when it might have restored, the delicate, complicated organisation,

already shaken and broken by war, through which alone the European peoples can employ themselves and live.

In England the outward aspect of life does not yet teach us to feel or realise in the least that an age is over. We are busy picking up the threads of our life where we dropped them, with this difference only, that many of us seem a good deal richer than we were before. Where we spent millions before the war, we have now learnt that we can spend hundreds of millions and apparently not suffer for it. Evidently we did not exploit to the utmost the possibilities of our economic life. We look, therefore, not only to a return to the comforts of 1914, but to an immense broadening and intensification of them. All classes alike thus build their plans, the rich to spend more and save less, the poor to spend more and work less.

But perhaps it is only in England (and America) that it is possible to be so unconscious. In continental Europe the earth heaves and no one but is aware of the rumblings. There it is not just a matter of extravagance or "labour troubles"; but of life and death, of starvation and existence, and of the fearful convulsions of a dying civilisation.

For one who spent in Paris the greater part of the six months which succeeded the Armistice, an occasional visit to London was a strange experience. England still stands outside Europe. Europe's voiceless tremors do not

reach her. Europe is apart and England is not of her flesh and body. But Europe is solid with herself. France, Germany, Italy, Austria, and Holland, Russia and Roumania and Poland, throb together, and their structure and civilisation are essentially one. They flourished together, they have rocked together in a war, which we, in spite of our enormous contributions and sacrifices, (like though in a less degree than America) economically stood outside, and they may fall together. In this lies the destructive significance of the Peace of Paris. If the European Civil War is to end with France and Italy abusing their momentary victorious power to destroy Germany and Austria-Hungary now prostrate, they invite their own destruction also, being so deeply and inextricably intertwined with their victims by hidden psychic and economic bonds. At any rate an Englishman who took part in the Conference of Paris and was during those months a member of the Supreme Economic Council of the Allied Powers, was bound to become, for him a new experience, a European in his cares and outlook. There, at the nerve centre of the European system, his British preoccupations must largely fall away and he must be haunted by other and more dreadful spectres. Paris was a nightmare, and every one there was morbid. A sense of impending catastrophe overhung the frivolous scene; the futility and smallness of man before the great events confronting him; the mingled significance and unreality of the decisions;

levity, blindness, insolence, confused cries from without,—all the elements of ancient tragedy were there. Seated indeed amid the theatrical trappings of the French Saloons of State, one could wonder if the extraordinary visages of Wilson and of Clemenceau, with their fixed hue and unchanging characterisation, were really faces at all and not the tragic-comic masks of some strange drama or puppet-show.

The proceedings of Paris all had this air of extraordinary importance and unimportance at the same time. The decisions seemed charged with consequences to the future of human society; yet the air whispered that the word was not flesh, that it was futile, insignificant, of no effect, dissociated from events; and one felt most strongly the impression, described by Tolstoy in *War and Peace* or by Hardy in *The Dynasts*, of events marching on to their fated conclusion uninfluenced and unaffected by the cerebations of Statesmen in Council:

SPIRIT OF THE YEARS

Observe that all wide sight and self-command
Desert these throngs now driven to demonry
By the Immanent Unrecking. Nought remains
But vindictiveness here amid the strong,
And there amid the weak an impotent rage.

SPIRIT OF THE PITIES

Why prompts the Will so senseless-shaped a doing?

SPIRIT OF THE YEARS

I have told thee that It works unwittingly,
As one possessed, not judging.

2. THE CAPACITY OF GERMANY TO PAY REPARATIONS (1919)

It is evident that Germany's pre-war capacity to pay an annual foreign tribute has not been unaffected by the almost total loss of her colonies, her overseas connections, her mercantile marine, and her foreign properties, by the cession of ten per cent of her territory and population, of one-third of her coal and of three-quarters of her iron ore, by two million casualties amongst men in the prime of life, by the starvation of her people for four years, by the burden of a vast war debt, by the depreciation of her currency to less than one-seventh its former value, by the disruption of her allies and their territories, by Revolution at home and Bolshevism on her borders, and by all the unmeasured ruin in strength and hope of four years of all-swallowing war and final defeat.

All this, one would have supposed, is evident. Yet most estimates of a great indemnity from Germany depend on the assumption that she is in a position to conduct in the future a vastly greater trade than ever she has had in the past.

For the purpose of arriving at a figure it is of no great consequence whether payment takes

the form of cash (or rather of foreign exchange) or is partly effected in kind (coal, dyes, timber, etc.), as contemplated by the Treaty. In any event, it is only by the export of specific commodities that Germany can pay, and the method of turning the value of these exports to account for Reparation purposes is, comparatively, a matter of detail.

We shall lose ourselves in mere hypothesis unless we return in some degree to first principles, and, whenever we can, to such statistics as there are. It is certain that an annual payment can only be made by Germany over a series of years by diminishing her imports and increasing her exports, thus enlarging the balance in her favour which is available for effecting payments abroad. Germany can pay in the long run in goods, and in goods only, whether these goods are furnished direct to the Allies, or whether they are sold to neutrals and the neutral credits so arising are then made over to the Allies. The most solid basis for estimating the extent to which this process can be carried is to be found, therefore, in an analysis of her trade returns before the war. Only on the basis of such an analysis, supplemented by some general data as to the aggregate wealth-producing capacity of the country, can a rational guess be made as to the maximum degree to which the exports of Germany could be brought to exceed her imports.

In the year 1913 Germany's imports amounted to £538,000,000 and her exports to

£505,000,000, exclusive of transit trade and bullion. That is to say, imports exceeded exports by about £33,000,000. On the average of the five years ending 1913, however, her imports exceeded her exports by a substantially larger amount, namely, £74,000,000. It follows, therefore, that more than the whole of Germany's pre-war balance for new foreign investment was derived from the interest on her existing foreign securities, and from the profits of her shipping, foreign banking, etc. As her foreign properties and her mercantile marine are now to be taken from her, and as her foreign banking and other miscellaneous sources of revenue from abroad have been largely destroyed, it appears that, on the pre-war basis of exports and imports, Germany, so far from having a surplus wherewith to make a foreign payment, would be not nearly self-supporting. Her first task, therefore, must be to effect a readjustment of consumption and production to cover this deficit. Any further economy she can effect in the use of imported commodities, and any further stimulation of exports will then be available for Reparation.

Let us run over the chief items of export:

- (1) Iron goods. In view of Germany's loss of resources, an increased net export seems impossible and a large decrease probable.
- (2) Machinery. Some increase is possible.
- (3) Coal and coke. The value of Germany's net export before the war was £22,000,000; the Allies have agreed that for the time being

20,000,000 tons is the maximum possible export with a problematic (and in fact) impossible increase to 40,000,000 tons at some future time; even on the basis of 20,000,000 tons we have virtually no increase of value, measured in pre-war prices; whilst, if this amount is exacted, there must be a decrease of far greater value in the export of manufactured articles requiring coal for their production. (4) Woollen goods. An increase is impossible without the raw wool, and, having regard to the other claims on supplies of raw wool, a decrease is likely. (5) Cotton goods. The same considerations apply as to wool. (6) Cereals. There never was and never can be a net export. (7) Leather goods. The same considerations apply as to wool.

We have now covered nearly half of Germany's pre-war exports, and there is no other commodity which formerly represented as much as 3 per cent of her exports. In what commodity is she to pay? Dyes?—their total value in 1913 was £10,000,000. Toys? Potash?—1913 exports were worth £3,000,000. And even if the commodities could be specified, in what markets are they to be sold?—remembering that we have in mind goods to the value not of tens of millions annually, but of hundreds of millions.

On the side of imports, rather more is possible. By lowering the standard of life, an appreciable reduction of expenditure on imported commodities may be possible. But,

as we have already seen, many large items are incapable of reduction without reacting on the volume of exports.

Let us put our guess as high as we can without being foolish, and suppose that after a time Germany will be able, in spite of the reduction of her resources, her facilities, her markets, and her productive power, to increase her exports and diminish her imports so as to improve her trade balance altogether by £100,000,000 annually, measured in pre-war prices. This adjustment is first required to liquidate the adverse trade balance, which in the five years before the war averaged £74,000,000; but we will assume that after allowing for this, she is left with a favourable trade balance of £50,000,000 a year. Doubling this to allow for the rise in post-war prices, we have a figure of £100,000,000. Having regard to the political, social, and human factors, as well as to the purely economic, I doubt if Germany could be made to pay this sum annually over a period of 30 years; but it would not be foolish to assert or to hope that she could.

Such a figure, allowing 5 per cent for interest, and 1 per cent for repayment of capital, represents a capital sum having a present value of about £1700 million.

I reach, therefore, the final conclusion that, including all methods of payment—immediately transferable wealth, ceded property, and an annual tribute—£2,000,000,000 is a safe

maximum figure of Germany's capacity to pay. In all the actual circumstances, I do not believe that she can pay as much.

There is only one head under which I see a possibility of adding to the figure reached on the line of argument adopted above; that is, if German labour is actually transported to the devastated areas and there engaged in the work of reconstruction. I have heard that a limited scheme of this kind is actually in view. The additional contribution thus obtainable depends on the number of labourers which the German Government could contrive to maintain in this way and also on the number which, over a period of years, the Belgian and French inhabitants would tolerate in their midst. In any case, it would seem very difficult to employ on the actual work of reconstruction, even over a number of years, imported labour having a net present value exceeding (say) £250,000,000; and even this would not prove in practice a net addition to the annual contributions obtainable in other ways.

A capacity of £8,000,000,000 or even of £5,000,000,000 is, therefore, not within the limits of reasonable possibility. It is for those who believe that Germany can make an annual payment amounting to hundreds of millions sterling to say *in what specific commodities* they intend this payment to be made, and *in what markets* the goods are to be sold. Until they proceed to some degree of detail,

and are able to produce some tangible argument in favour of their conclusions, they do not deserve to be believed.

I make three provisos only, none of which affect the force of my argument for immediate practical purposes.

First: If the Allies were to "nurse" the trade and industry of Germany for a period of five or ten years, supplying her with large loans, and with ample shipping, food, and raw materials during that period, building up markets for her, and deliberately applying all their resources and goodwill to making her the greatest industrial nation in Europe, if not in the world, a substantially larger sum could probably be extracted thereafter; for Germany is capable of very great productivity.

Second: Whilst I estimate in terms of money, I assume that there is no revolutionary change in the purchasing power of our unit of value. If the value of gold were to sink to a half or a tenth of its present value, the real burden of a payment fixed in terms of gold would be reduced proportionately. If a gold sovereign comes to be worth what a shilling is worth now, then, of course, Germany can pay a larger sum than I have named, measured in gold sovereigns.

Third: I assume that there is no revolutionary change in the yield of Nature and material to man's labour. It is not *impossible* that the progress of science should bring within our reach methods and devices by which the whole standard of life would be raised immeasurably,

and a given volume of products would represent but a portion of the human effort which it represents now. In this case all standards of "capacity" would be changed everywhere. But the fact that all things are *possible* is no excuse for talking foolishly.

It is true that in 1870 no man could have predicted Germany's capacity in 1910. We cannot expect to legislate for a generation or more. The secular changes in man's economic condition and the liability of human forecast to error are as likely to lead to mistake in one direction as in another. We cannot as reasonable men do better than base our policy on the evidence we have and adapt it to the five or ten years over which we may suppose ourselves to have some measure of prevision; and we are not at fault if we leave on one side the extreme chances of human existence and of revolutionary changes in the order of Nature or of man's relations to her. The fact that we have no adequate knowledge of Germany's capacity to pay over a long period of years is no justification (as I have heard some people claim that it is) for the statement that she can pay ten thousand million pounds.

Why has the world been so credulous of the unveracities of politicians? If an explanation is needed, I attribute this particular credulity to the following influences in part.

In the first place, the vast expenditures of the war, the inflation of prices, and the depreciation of currency, leading up to a complete instability

of the unit of value, have made us lose all sense of number and magnitude in matters of finance. What we believed to be the limits of possibility have been so enormously exceeded, and those who founded their expectations on the past have been so often wrong, that the man in the street is now prepared to believe anything which is told him with some show of authority, and the larger the figure the more readily he swallows it.

But those who look into the matter more deeply are sometimes misled by a fallacy, much more plausible to reasonable persons. Such a one might base his conclusions on Germany's total surplus of annual productivity as distinct from her export surplus. Helfferich's estimate of Germany's annual increment of wealth in 1913 was £400,000,000 to £425,000,000 (exclusive of increased money value of existing land and property). Before the war, Germany spent between £50,000,000 and £100,000,000 on armaments, with which she can now dispense. Why, therefore, should she not pay over to the Allies an annual sum of £500,000,000? This puts the crude argument in its strongest and most plausible form.

But there are two errors in it. First of all, Germany's annual savings, after what she has suffered in the war and by the Peace, will fall far short of what they were before, and, if they are taken from her year by year in future, they cannot again reach their previous level. The loss of Alsace-Lorraine, Poland, and Upper Silesia could not be assessed in terms of surplus

productivity at less than £50,000,000 annually. Germany is supposed to have profited about £100,000,000 per annum from her ships, her foreign investments, and her foreign banking and connections, all of which have now been taken from her. Her saving on armaments is far more than balanced by her annual charge for pensions now estimated at £250,000,000,¹ which represents a real loss of productive capacity. And even if we put on one side the burden of the internal debt, which amounts to 240 milliards of marks, as being a question of internal distribution rather than of productivity, we must still allow for the foreign debt incurred by Germany during the war, the exhaustion of her stock of raw materials, the depletion of her live-stock, the impaired productivity of her soil from lack of manures and of labour, and the diminution in her wealth from the failure to keep up many repairs and renewals over a period of nearly five years. Germany is not as rich as she was before the war, and the diminution in her future savings for these reasons, quite apart from the factors previously allowed for, could hardly be put at less than ten per cent, that is £40,000,000 annually.

These factors have already reduced Germany's annual surplus to less than the £100,000,000 at

¹ The conversion at par of 5000 million marks overstates by reason of the existing depreciation of the mark, the present money burden of the actual pensions payments, but not, in all probability, the real loss of national productivity as a result of the casualties suffered in the war.

which we arrived on other grounds as the maximum of her annual payments. But even if the rejoinder be made, that we have not yet allowed for the lowering of the standard of life and comfort in Germany which may reasonably be imposed on a defeated enemy, there is still a fundamental fallacy in the method of calculation. An annual surplus available for home investment can only be converted into a surplus available for export abroad by a radical change in the kind of work performed. Labour, while it may be available and efficient for domestic services in Germany, may yet be able to find no outlet in foreign trade. We are back on the same question which faced us in our examination of the export trade—in *what* export trade is German labour going to find a greatly increased outlet? Labour can only be diverted into new channels with loss of efficiency, and a large expenditure of capital. The annual surplus which German labour can produce for capital improvements at home is no measure, either theoretically or practically, of the annual tribute which she can pay abroad.

I cannot leave this subject as though its just treatment wholly depended either on our own pledges or on economic facts. The policy of reducing Germany to servitude for a generation, of degrading the lives of millions of human beings, and of depriving a whole nation of happiness should be abhorrent and detestable, —abhorrent and detestable, even if it were

possible, even if it enriched ourselves, even if it did not sow the decay of the whole civilised life of Europe. Some preach it in the name of Justice. In the great events of man's history, in the unwinding of the complex fates of nations Justice is not so simple. And if it were, nations are not authorised, by religion or by natural morals, to visit on the children of their enemies the misdoings of parents or of rulers.

3. PROPOSALS FOR THE RECONSTRUCTION OF EUROPE (1919)

(i) *The Revision of the Treaty*

Are any constitutional means open to us for altering the Treaty? President Wilson and General Smuts, who believe that to have secured the Covenant of the League of Nations outweighs much evil in the rest of the Treaty, have indicated that we must look to the League for the gradual evolution of a more tolerable life for Europe. "There are territorial settlements," General Smuts wrote in his statement on signing the Peace Treaty, "which will need revision. There are guarantees laid down which we all hope will soon be found out of harmony with the new peaceful temper and unarmed state of our former enemies. There are punishments foreshadowed over most of which a calmer mood may yet prefer to pass the sponge of oblivion. There are indemnities stipulated which cannot be exacted without grave injury to the industrial revival of Europe, and which it will be in the interests of all to render more tolerable and moderate. . . . I am confident that the League of Nations will yet prove the path of escape for Europe out of

the ruin brought about by this war." Without the League, President Wilson informed the Senate when he presented the Treaty to them early in July 1919, "... long-continued supervision of the task of reparation which Germany was to undertake to complete within the next generation might entirely break down; the reconsideration and revision of administrative arrangements and restrictions which the Treaty prescribed, but which it recognised might not provide lasting advantage or be entirely fair if too long enforced, would be impracticable."

Can we look forward with fair hopes to securing from the operation of the League those benefits which two of its principal begetters thus encourage us to expect from it? The relevant passage is to be found in Article XIX. of the Covenant, which runs as follows:

The Assembly may from time to time advise the reconsideration by Members of the League of treaties which have become inapplicable and the consideration of international conditions whose continuance might endanger the peace of the world.

But alas! Article V. provides that "Except where otherwise expressly provided in this Covenant or by the terms of the present Treaty, decisions at any meeting of the Assembly or of the Council shall require the agreement of all the Members of the League represented at the meeting." Does not this provision reduce the League, so far as concerns an early reconsideration of any of the terms of the Peace Treaty,

into a body merely for wasting time? If all the parties to the Treaty are unanimously of opinion that it requires alteration in a particular sense, it does not need a League and a Covenant to put the business through. Even when the Assembly of the League is unanimous it can only "advise" reconsideration by the members specially affected.

But the League will operate, say its supporters, by its influence on the public opinion of the world, and the view of the majority will carry decisive weight in practice, even though constitutionally it is of no effect. Let us pray that this be so. Yet the League in the hands of the trained European diplomatist may become an unequalled instrument for obstruction and delay. The revision of Treaties is entrusted primarily, not to the Council, which meets frequently, but to the Assembly, which will meet more rarely and must become, as any one with an experience of large Inter-Ally Conferences must know, an unwieldy polyglot debating society in which the greatest resolution and the best management may fail altogether to bring issues to a head against an opposition in favour of the *status quo*. There are indeed two disastrous blots on the Covenant,—Article V., which prescribes unanimity, and the much-criticised Article X., by which "The Members of the League undertake to respect and preserve as against external aggression the territorial integrity and existing political independence of all Members of the

League." These two Articles together go some way to destroy the conception of the League as an instrument of progress, and to equip it from the outset with an almost fatal bias towards the *status quo*. It is these Articles which have reconciled to the League some of its original opponents, who now hope to make of it another Holy Alliance for the perpetuation of the economic ruin of their enemies and the Balance of Power in their own interests which they believe themselves to have established by the Peace.

But while it would be wrong and foolish to conceal from ourselves in the interests of "idealism" the real difficulties of the position in the special matter of revising treaties, that is no reason for any of us to decry the League, which the wisdom of the world may yet transform into a powerful instrument of peace, and which in Articles XI.-XVII.¹ has already accomplished a great and beneficent achievement. I agree, therefore, that our first efforts for the Revision of the Treaty must be made through the League rather than in any other way, in the hope that the force of general opinion, and if necessary, the use of financial pressure and financial inducements, may be enough to prevent a recalcitrant minority from exercising

¹ These Articles, which provide safeguards against the outbreak of war between members of the League and also between members and non-members, are the solid achievement of the Covenant. These Articles make substantially less probable a war between organised Great Powers such as that of 1914. This alone should commend the League to all men.

their right of veto. We must trust the new Governments, whose existence I premise in the principal Allied countries, to show a profounder wisdom and a greater magnanimity than their predecessors.

I do not intend to enter here into details, or to attempt a revision of the Treaty clause by clause. I limit myself to three great changes which are necessary for the economic life of Europe, relating to Reparation, to Coal and Iron, and to Tariffs.

Reparation.—If the sum demanded for Reparation is less than what the Allies are entitled to on a strict interpretation of their engagements, it is unnecessary to particularise the items it represents or to hear arguments about its compilation. I suggest, therefore, the following settlement:

(1) The amount of the payment to be made by Germany in respect of Reparation and the costs of the Armies of Occupation might be fixed at £2000 million.

(2) The surrender of merchant ships and submarine cables under the Treaty, of war material under the Armistice, of State property in ceded territory, of claims against such territory in respect of public debt, and of Germany's claims against her former Allies, should be reckoned as worth the lump sum of £500 million, without any attempt being made to evaluate them item by item.

(3) The balance of £1500 million should not carry interest pending its repayment, and should

be paid by Germany in thirty annual instalments of £50 million, beginning in 1923.

(4) The Reparation Commission should be dissolved, or, if any duties remain for it to perform, it should become an appanage of the League of Nations and should include representatives of Germany and of the neutral States.

(5) Germany would be left to meet the annual instalments in such manner as she might see fit, any complaint against her for non-fulfilment of her obligations being lodged with the League of Nations. That is to say, there would be no further expropriation of German private property abroad, except so far as is required to meet private German obligations out of the proceeds of such property already liquidated or in the hands of Public Trustees and Enemy-Property Custodians in the Allied countries and in the United States; and, in particular, Article 260 (which provides for the expropriation of German interests in public utility enterprises) would be abrogated.

(6) No attempt should be made to extract Reparation payments from Austria.

Coal and Iron.—(1) The Allies' options on coal under Annex V. should be abandoned, but Germany's obligation to make good France's loss of coal through the destruction of her mines should remain. This obligation should lapse, nevertheless, in the event of the coal districts of Upper Silesia being taken from Germany in the final settlement consequent on the plebiscite.

(2) The arrangement as to the Saar should

hold good, except that, on the one hand, Germany should receive no credit for the mines, and, on the other should receive back both the mines and the territory without payment and unconditionally after ten years. But this should be conditional on France's entering into an agreement for the same period to supply Germany from Lorraine with at least 50 per cent of the iron ore which was carried from Lorraine into Germany proper before the war, in return for an undertaking from Germany to supply Lorraine with an amount of coal equal to the whole amount formerly sent to Lorraine from Germany proper, after allowing for the output of the Saar.

(3) The arrangement as to Upper Silesia should hold good. That is to say, a plebiscite should be held, and in coming to a final decision "regard will be paid (by the principal Allied and Associated Powers) to the wishes of the inhabitants as shown by the vote, and to the geographical and economic conditions of the locality." But the Allies should declare that in their judgement "economic conditions" require the inclusion of the coal districts in Germany unless the wishes of the inhabitants are decidedly to the contrary.

Tariffs.—A Free Trade Union should be established under the auspices of the League of Nations of countries undertaking to impose no protectionist tariffs¹ whatever against the

¹ It would be expedient so to define a "protectionist tariff" as to permit (a) the total prohibition of certain imports; (b) the imposition of sumptuary or revenue customs duties on commo-

produce of other members of the Union. Germany, Poland, the new States which formerly composed the Austro-Hungarian and Turkish Empires, and the Mandated States should be compelled to adhere to this Union for ten years, after which time adherence would be voluntary. The adherence of other States would be voluntary from the outset. But it is to be hoped that the United Kingdom, at any rate, would become an original member.

By fixing the Reparation payments well within Germany's capacity to pay, we make possible the renewal of hope and enterprise within her territory, we avoid the perpetual friction and opportunity of improper pressure arising out of Treaty clauses which are impossible of fulfilment, and we render unnecessary the intolerable powers of the Reparation Commission.

By a moderation of the clauses relating directly or indirectly to coal, and by the exchange of iron ore, we permit the continuance of Germany's industrial life, and put limits on the loss of productivity which would be brought about otherwise by the interference of political frontiers with the natural localisation of the iron and steel industry.

ties not produced at home; (c) the imposition of customs duties which did not exceed by more than five per cent a countervailing excise on similar commodities produced at home; (d) export duties. Further, special exceptions might be permitted by a majority vote of the countries entering the Union. Duties which had existed for five years prior to a country's entering the Union might be allowed to disappear gradually by equal instalments spread over the five years subsequent to joining the Union.

By the proposed Free Trade Union some part of the loss of organisation and economic efficiency may be retrieved, which must otherwise result from the innumerable new political frontiers now created between greedy, jealous, immature, and economically incomplete, nationalist States. Economic frontiers were tolerable so long as an immense territory was included in a few great Empires; but they will not be tolerable when the Empires of Germany, Austria-Hungary, Russia, and Turkey have been partitioned between some twenty independent authorities. A Free Trade Union, comprising the whole of Central, Eastern, and South-Eastern Europe, Siberia, Turkey, and (I should hope) the United Kingdom, Egypt, and India, might do as much for the peace and prosperity of the world as the League of Nations itself. Belgium, Holland, Scandinavia, and Switzerland might be expected to adhere to it shortly. And it would be greatly to be desired by their friends that France and Italy also should see their way to adhesion.

It would be objected, I suppose, by some critics that such an arrangement might go some way in effect towards realising the former German dream of *Mittel-Europa*. If other countries were so foolish as to remain outside the Union and to leave to Germany all its advantages, there might be some truth in this. But an economic system, to which every one had the opportunity of belonging and which gave special privilege to none, is

surely absolutely free from the objections of a privileged and avowedly imperialistic scheme of exclusion and discrimination. Our attitude to these criticisms must be determined by our whole moral and emotional reaction to the future of international relations and the Peace of the World. If we take the view that for at least a generation to come Germany cannot be trusted with even a modicum of prosperity, that while all our recent Allies are angels of light, all our recent enemies, Germans, Austrians, Hungarians, and the rest, are children of the devil, that year by year Germany must be kept impoverished and her children starved and crippled, and that she must be ringed round by enemies; then we shall reject all the proposals of this chapter, and particularly those which may assist Germany to regain a part of her former material prosperity and find a means of livelihood for the industrial population of her towns. But if this view of nations and of their relation to one another is adopted by the democracies of Western Europe, and is financed by the United States, heaven help us all. If we aim deliberately at the impoverishment of Central Europe, vengeance, I dare predict, will not limp. Nothing can then delay for very long that final civil war between the forces of Reaction and the despairing convulsions of Revolution, before which the horrors of the late German war will fade into nothing, and which will destroy, whoever is victor, the civilisation and the pro-

gress of our generation. Even though the result disappoint us, must we not base our actions on better expectations, and believe that the prosperity and happiness of one country promotes that of others, that the solidarity of man is not a fiction, and that nations can still afford to treat other nations as fellow-creatures?

Such changes as I have proposed above might do something appreciable to enable the industrial populations of Europe to continue to earn a livelihood. But they would not be enough by themselves. In particular, France would be a loser on paper (on paper only, for she will never secure the actual fulfilment of her present claims), and an escape from her embarrassments must be shown her in some other direction. I proceed, therefore, to proposals, first, for the adjustment of the claims of America and the Allies amongst themselves; and second, for the provision of sufficient credit to enable Europe to re-create her stock of circulating capital.

(ii) *The Settlement of Inter-Ally Indebtedness*

In proposing a modification of the Reparation terms, I have considered them so far only in relation to Germany. But fairness requires that so great a reduction in the amount should be accompanied by a readjustment of its apportionment between the Allies themselves. The professions which our statesmen made on

every platform during the war, as well as other considerations, surely require that the areas damaged by the enemy's invasion should receive a priority of compensation. While this was one of the ultimate objects for which we said we were fighting, we never included the recovery of separation allowances amongst our war aims. I suggest, therefore, that we should by our acts prove ourselves sincere and trustworthy, and that accordingly Great Britain should waive altogether her claims for cash payment, in favour of Belgium, Serbia, and France. The whole of the payments made by Germany would then be subject to the prior charge of repairing the material injury done to those countries and provinces which suffered actual invasion by the enemy; and I believe that the sum of £1,500,000,000 thus available would be adequate to cover entirely the actual costs of restoration. Further, it is only by a complete subordination of her own claims for cash compensation that Great Britain can ask with clean hands for a revision of the Treaty and clear her honour from the breach of faith for which she bears the main responsibility, as a result of the policy to which the General Election of 1918 pledged her representatives.

With the Reparation problem thus cleared up it would be possible to bring forward with a better grace and more hope of success two other financial proposals, each of which involves an appeal to the generosity of the United States.

The first is for the entire cancellation of Inter-Ally indebtedness (that is to say, indebtedness between the Governments of the Allied and Associated countries) incurred for the purposes of the war. This proposal, which has been put forward already in certain quarters, is one which I believe to be absolutely essential to the future prosperity of the world. It would be an act of far-seeing statesmanship for the United Kingdom and the United States, the two Powers chiefly concerned, to adopt it. The sums of money which are involved are shown approximately in the following table:¹

Loans to	By United States.	By United Kingdom.	By France.	Total.
	£	£	£	£
United Kingdom .	842,000,000	842,000,000
France .	550,000,000	508,000,000	..	1,058,000,000
Italy . .	325,000,000	467,000,000	35,000,000	827,000,000
Russia . .	38,000,000	568,000,000	160,000,000	766,000,000
Belgium .	80,000,000	98,000,000	90,000,000 ¹	268,000,000
Serbia and Jugo-Slavia	20,000,000	20,000,000	20,000,000	60,000,000
Other Allies	35,000,000	79,000,000	50,000,000	164,000,000
Total .	1,900,000,000	1,740,000,000	355,000,000	3,995,000,000

Thus the total volume of Inter-Ally indebtedness, assuming that loans from one Ally are not set off against loans to another, is nearly £4,000,000,000. The United States is a lender only. The United Kingdom has

¹ The figures in this table are partly estimated, and are probably not completely accurate in detail.

lent about twice as much as she has borrowed. France has borrowed about three times as much as she has lent. The other Allies have been borrowers only.

If all the above Inter-Ally indebtedness were mutually forgiven, the net result on paper (*i.e.* assuming all the loans to be good) would be a surrender by the United States of about £2,000,000,000 and by the United Kingdom of about £900,000,000. France would gain about £700,000,000 and Italy about £800,000,000. But these figures overstate the loss to the United Kingdom and understate the gain to France; for a large part of the loans made by both these countries has been to Russia and cannot, by any stretch of imagination, be considered good. If the loans which the United Kingdom has made to her Allies are reckoned to be worth 50 per cent of their full value (an arbitrary but convenient assumption which the Chancellor of the Exchequer has adopted on more than one occasion as being as good as any other for the purposes of an approximate national balance sheet), the operation would involve her neither in loss nor in gain. But in whatever way the net result is calculated on paper, the relief in anxiety which such a liquidation of the position would carry with it would be very great. It is from the United States, therefore, that the proposal asks generosity.

Speaking with a very intimate knowledge of the relations throughout the war between the

British, the American, and the other Allied Treasuries, I believe this to be an act of generosity for which Europe can fairly ask, provided Europe is making an honourable attempt in other directions, not to continue war, economic or otherwise, but to achieve the economic reconstitution of the whole Continent. The financial sacrifices of the United States have been, in proportion to her wealth, immensely less than those of the European States. This could hardly have been otherwise. It was a European quarrel, in which the United States Government could not have justified itself before its citizens in expending the whole national strength, as did the Europeans. After the United States came into the war her financial assistance was lavish and unstinted, and without this assistance the Allies could never have won the war, quite apart from the decisive influence of the arrival of the American troops.

But in speaking thus as we do of American financial assistance, we tacitly assume, and America, I believe, assumed it too when she gave the money, that it was not in the nature of an investment. If Europe is going to repay the £2,000,000,000 worth of financial assistance which she has had from the United States with compound interest at 5 per cent, the matter takes on quite a different complexion. If America's advances are to be regarded in this light, her relative financial sacrifice has been very slight indeed.

Failing such a settlement as is now proposed,

the war will have ended with a network of heavy tribute payable from one Ally to another. The total amount of this tribute is even likely to exceed the amount obtainable from the enemy; and the war will have ended with the intolerable result of the Allies paying indemnities to one another instead of receiving them from the enemy.

For this reason the question of Inter-Allied indebtedness is closely bound up with the intense popular feeling amongst the European Allies on the question of indemnities,—a feeling which is based, not on any reasonable calculation of what Germany can, in fact, pay, but on a well-founded appreciation of the unbearable financial situation in which these countries will find themselves unless she pays. Take Italy as an extreme example. If Italy can reasonably be expected to pay £800,000,000, surely Germany can and ought to pay an immeasurably higher figure. Or if it is decided (as it must be) that Austria can pay next to nothing, is it not an intolerable conclusion that Italy should be loaded with a crushing tribute, while Austria escapes? Or, to put it slightly differently, how can Italy be expected to submit to payment of this great sum and see Czecho-Slovakia pay little or nothing? At the other end of the scale there is the United Kingdom. Here the financial position is different, since to ask us to pay £800,000,000 is a very different proposition from asking Italy to pay it. But the sentiment is much the same. If we have

to be satisfied without full compensation from Germany, how bitter will be the protests against paying it to the United States. We, it will be said, have to be content with a claim against the bankrupt estates of Germany, France, Italy, and Russia, whereas the United States has secured a first mortgage upon us. The case of France is at least as overwhelming. She can barely secure from Germany the full measure of the destruction of her countryside. Yet victorious France must pay her friends and Allies more than four times the indemnity which in the defeat of 1870 she paid Germany. The hand of Bismarck was light compared with that of an Ally or of an Associate. A settlement of Inter-Ally indebtedness is, therefore, an indispensable preliminary to the peoples of the Allied countries facing, with other than a maddened and exasperated heart, the inevitable truth about the prospects of an indemnity from the enemy.

It might be an exaggeration to say that it is impossible for the European Allies to pay the capital and interest due from them on these debts, but to make them do so would certainly be to impose a crushing burden. They may be expected, therefore, to make constant attempts to evade or escape payment, and these attempts will be a constant source of international friction and ill-will for many years to come. A debtor nation does not love its creditor, and it is fruitless to expect feelings of goodwill from France, Italy, and Russia

towards this country or towards America, if their future development is stifled for many years to come by the annual tribute which they must pay us. There will be a great incentive to them to seek their friends in other directions, and any future rupture of peaceable relations will always carry with it the enormous advantage of escaping the payment of external debts. If, on the other hand, these great debts are forgiven, a stimulus will be given to the solidarity and true friendliness of the nations lately associated.

The existence of the great war debts is a menace to financial stability everywhere. There is no European country in which repudiation may not soon become an important political issue. In the case of internal debt, however, there are interested parties on both sides, and the question is one of the internal distribution of wealth. With external debts this is not so, and the creditor nations may soon find their interest inconveniently bound up with the maintenance of a particular type of government or economic organisation in the debtor countries. Entangling alliances or entangling leagues are nothing to the entanglements of cash owing.

The final consideration influencing the reader's attitude to this proposal must, however, depend on his view as to the future place in the world's progress of the vast paper entanglements which are our legacy from war finance both at home and abroad. The war has ended with every one owing every one else immense

sums of money. Germany owes a large sum to the Allies; the Allies owe a large sum to Great Britain; and Great Britain owes a large sum to the United States. The holders of war loan in every country are owed a large sum by the State; and the State in its turn is owed a large sum by these and other taxpayers. The whole position is in the highest degree artificial, misleading, and vexatious. We shall never be able to move again, unless we can free our limbs from these paper shackles. A general bonfire is so great a necessity that unless we can make of it an orderly and good-tempered affair in which no serious injustice is done to any one, it will, when it comes at last, grow into a conflagration that may destroy much else as well. As regards internal debt, I am one of those who believe that a capital levy for the extinction of debt is an absolute pre-requisite of sound finance in every one of the European belligerent countries. But the continuance on a huge scale of indebtedness between Governments has special dangers of its own.

Before the middle of the nineteenth century no nation owed payments to a foreign nation on any considerable scale, except such tributes as were exacted under the compulsion of actual occupation in force and, at one time, by absentee princes under the sanctions of feudalism. It is true that the need for European capitalism to find an outlet in the New World has led during the past fifty years, though even now on a relatively modest scale, to such countries as

Argentine owing an annual sum to such countries as England. But the system is fragile; and it has only survived because its burden on the paying countries has not so far been oppressive, because this burden is represented by real assets and is bound up with the property system generally, and because the sums already lent are not unduly large in relation to those which it is still hoped to borrow. Bankers are used to this system, and believe it to be a necessary part of the permanent order of society. They are disposed to believe, therefore, by analogy with it, that a comparable system between Governments, on a far vaster and definitely oppressive scale, represented by no real assets, and less closely associated with the property system, is natural and reasonable and in conformity with human nature.

I doubt this view of the world. Even capitalism at home, which engages many local sympathies, which plays a real part in the daily process of production, and upon the security of which the present organisation of Society largely depends, is not very safe. But however this may be, will the discontented peoples of Europe be willing for a generation to come so to order their lives that an appreciable part of their daily produce may be available to meet a foreign payment, the reason of which, whether as between Europe and America, or as between Germany and the rest of Europe, does not spring compellingly from their sense of justice or duty?

On the one hand, Europe must depend in the long run on her own daily labour and not on the largesse of America; but, on the other hand, she will not pinch herself in order that the fruit of her daily labour may go elsewhere. In short, I do not believe that any of these tributes will continue to be paid, at the best, for more than a very few years. They do not square with human nature or agree with the spirit of the age.

If there is any force in this mode of thought, expediency and generosity agree together, and the policy which will best promote immediate friendship between nations will not conflict with the permanent interests of the benefactors.

(iii) *An International Loan*

I pass to a second financial proposal. The requirements of Europe are *immediate*. The prospect of being relieved of oppressive interest payments to England and America over the whole life of the next two generations (and of receiving from Germany some assistance year by year to the costs of restoration) would free the future from excessive anxiety. But it would not meet the ills of the immediate present,—the excess of Europe's imports over her exports, the adverse exchange, and the disorder of the currency. It will be very difficult for European production to get started again without a temporary measure of external assistance. I am therefore a supporter of an international loan in

some shape or form, such as has been advocated in many quarters in France, Germany, and England, and also in the United States. In whatever way the ultimate responsibility for repayment is distributed, the burden of finding the immediate resources must inevitably fall in major part upon the United States.

The chief objections to all the varieties of this species of project are, I suppose, the following. The United States is disinclined to entangle herself further (after recent experiences) in the affairs of Europe, and, anyhow, has for the time being no more capital to spare for export on a large scale. There is no guarantee that Europe will put financial assistance to proper use, or that she will not squander it and be in just as bad case two or three years hence as she is in now;—M. Klotz will use the money to put off the day of taxation a little longer, Italy and Jugo-Slavia will fight one another on the proceeds, Poland will devote it to fulfilling towards all her neighbours the military rôle which France has designed for her, the governing classes of Roumania will divide up the booty amongst themselves. In short, America would have postponed her own capital developments and raised her own cost of living in order that Europe might continue for another year or two the practices, the policy, and the men of the past nine months. And as for assistance to Germany, is it reasonable or at all tolerable that the European Allies, having stripped Germany of her last vestige of working capital, in opposi-

tion to the arguments and appeals of the American financial representatives at Paris, should then turn to the United States for funds to rehabilitate the victim in sufficient measure to allow the spoliation to recommence in a year or two?

There is no answer to these objections as matters are now. If I had influence at the United States Treasury, I would not lend a penny to a single one of the present Governments of Europe. They are not to be trusted with resources which they would devote to the furtherance of policies in repugnance to which, in spite of the President's failure to assert either the might or the ideals of the people of the United States, the Republican and the Democratic parties are probably united. But if, as we must pray they will, the souls of the European peoples turn away this winter from the false idols which have survived the war that created them, and substitute in their hearts for the hatred and the nationalism, which now possess them, thoughts and hopes of the happiness and solidarity of the European family,—then should natural piety and filial love impel the American people to put on one side all the smaller objections of private advantage and to complete the work that they began in saving Europe from the tyranny of organised force, by saving her from herself. And even if the conversion is not fully accomplished, and some parties only in each of the European countries have espoused a policy of reconciliation, America can still

point the way and hold up the hands of the party of peace by having a plan and a condition on which she will give her aid to the work of renewing life.

The impulse which, we are told, is now strong in the mind of the United States to be quit of the turmoil, the complication, the violence, the expense, and, above all, the unintelligibility of the European problems, is easily understood. No one can feel more intensely than the writer how natural it is to retort to the folly and impracticability of the European statesmen,—Rot, then, in your own malice, and we will go our way—

Remote from Europe; from her blasted hopes;
Her fields of carnage, and polluted air.

But if America recalls for a moment what Europe has meant to her and still means to her, what Europe, the mother of art and of knowledge, in spite of everything, still is and still will be, will she not reject these counsels of indifference and isolation, and interest herself in what may prove decisive issues for the progress and civilisation of all mankind?

Assuming then, if only to keep our hopes up, that America will be prepared to contribute to the process of building up the good forces of Europe, and will not, having completed the destruction of an enemy, leave us to our misfortunes,—what form should her aid take?

I do not propose to enter on details. But the main outlines of all schemes for an inter-

national loan are much the same. The countries in a position to lend assistance, the neutrals, the United Kingdom, and, for the greater portion of the sum required, the United States, must provide foreign purchasing credits for all the belligerent countries of continental Europe, allied and ex-enemy alike. The aggregate sum required might not be so large as is sometimes supposed. Much might be done, perhaps, with a fund of £200,000,000 in the first instance. This sum, even if a precedent of a different kind had been established by the cancellation of Inter-Ally War Debt, should be lent and should be borrowed with the unequivocal intention of its being repaid in full. With this object in view, the security for the loan should be the best obtainable, and the arrangements for its ultimate repayment as complete as possible. In particular, it should rank, both for payment of interest and discharge of capital, in front of all Reparation claims, all Inter-Ally War Debt, all internal war loans, and all other Government indebtedness of any other kind. Those borrowing countries who will be entitled to Reparation payments should be required to pledge all such receipts to repayment of the new loan. And all the borrowing countries should be required to place their customs duties on a gold basis and to pledge such receipts to its service.

Expenditure out of the loan should be subject to general, but not detailed, supervision by the lending countries.

If, in addition to this loan for the purchase of food and materials, a guarantee fund were established up to an equal amount, namely £200,000,000 (of which it would probably prove necessary to find only a part in cash), to which all members of the League of Nations would contribute according to their means, it might be practicable to base upon it a general reorganisation of the currency.

In this manner Europe might be equipped with the minimum amount of liquid resources necessary to revive her hopes, to renew her economic organisation, and to enable her great intrinsic wealth to function for the benefit of her workers. It is useless at the present time to elaborate such schemes in further detail. A great change is necessary in public opinion before the proposals of this chapter can enter the region of practical politics, and we must await the progress of events as patiently as we can.

I see few signs of sudden or dramatic developments anywhere. Riots and revolutions there may be, but not such, at present, as to have fundamental significance. Against political tyranny and injustice Revolution is a weapon. But what counsels of hope can Revolution offer to sufferers from economic privation, which does not arise out of the injustices of distribution but is general? The only safeguard against revolution in Central Europe is indeed the fact that, even to the minds of men who are des-

perate, Revolution offers no prospect of improvement whatever. There may, therefore, be ahead of us a long, silent process of semi-starvation, and of a gradual, steady lowering of the standards of life and comfort. The bankruptcy and decay of Europe, if we allow it to proceed, will affect every one in the long-run, but perhaps not in a way that is striking or immediate.

This has one fortunate side. We may still have time to reconsider our courses and to view the world with new eyes. For the immediate future events are taking charge, and the near destiny of Europe is no longer in the hands of any man. The events of the coming year will not be shaped by the deliberate acts of statesmen, but by the hidden currents, flowing continually beneath the surface of political history, of which no one can predict the outcome. In one way only can we influence these hidden currents,—by setting in motion those forces of instruction and imagination which change *opinion*. The assertion of truth, the unveiling of illusion, the dissipation of hate, the enlargement and instruction of men's hearts and minds, must be the means.

4. THE CHANGE OF OPINION (1921)

It is the method of modern statesmen to talk as much folly as the public demand and to practise no more of it than is compatible with what they have said, trusting that such folly in action as must wait on folly in word will soon disclose itself as such, and furnish an opportunity for slipping back into wisdom,—the Montessori system for the child, the Public. He who contradicts this child will soon give place to other tutors. Praise, therefore, the beauty of the flames he wishes to touch, the music of the breaking toy; even urge him forward; yet waiting with vigilant care, the wise and kindly saviour of Society, for the right moment to snatch him back, just singed and now attentive.

I can conceive for this terrifying statesmanship a plausible defence. Mr. Lloyd George took the responsibility for a Treaty of Peace, which was not wise, which was partly impossible, and which endangered the life of Europe. He may defend himself by saying that he knew that it was not wise and was partly impossible and endangered the life of Europe; but that public passions and public

ignorance play a part in the world of which he who aspires to lead a democracy must take account; that the Peace of Versailles was the best momentary settlement which the demands of the mob and the characters of the chief actors conjoined to permit; and for the life of Europe, that he has spent his skill and strength for two years in avoiding or moderating the dangers.

Such claims would be partly true and cannot be brushed away. The private history of the Peace Conference, as it has been disclosed by French and American participators, displays Mr. Lloyd George in a partly favourable light, generally striving against the excesses of the Treaty and doing what he could, short of risking a personal defeat. The public history of the two years which have followed it exhibit him as protecting Europe from as many of the evil consequences of his own Treaty, as it lay in his power to prevent, with a craft few could have bettered, preserving the peace, though not the prosperity, of Europe, seldom expressing the truth, yet often acting under its influence. He would claim, therefore, that by devious paths, a faithful servant of the possible, he was serving Man.

He may judge rightly that this is the best of which a democracy is capable—to be jockeyed, humbugged, cajoled along the right road. A preference for truth or for sincerity *as a method* may be a prejudice based on some aesthetic or personal standard, inconsistent, in politics, with practical good.

We cannot yet tell. Even the public learns by experience. Will the charm work still, when the stock of statesmen's credibility, accumulated before these times, is getting exhausted?

In any event, private individuals are not under the same obligation as Cabinet Ministers to sacrifice veracity to the public weal. It is a permitted self-indulgence for a private person to speak and write freely. Perhaps it may even contribute one ingredient to the congeries of things which the wands of statesmen cause to work together, so marvellously, for our ultimate good.

For these reasons I do not admit error in having based *The Economic Consequences of the Peace* on a literal interpretation of the Treaty of Versailles, or in having examined the results of actually carrying it out. I argued that much of it was *impossible*; but I do not agree with many critics, who held that, for this very reason, it was also harmless. Inside opinion accepted from the beginning many of my main conclusions about the Treaty. But it was not therefore unimportant that outside opinion should accept them also.

For there are, in the present times, two opinions; not, as in former ages, the true and the false, but the outside and the inside; the opinion of the public voiced by the politicians and the newspapers, and the opinion of the politicians, the journalists and the civil

servants, upstairs and backstairs and behindstairs, expressed in limited circles.

Those who live in the limited circles and share the inside opinion pay both too much and too little attention to the outside opinion; too much, because, ready in words and promises to concede to it everything, they regard open opposition as absurdly futile; too little, because they believe that these words and promises are so certainly destined to change in due season, that it is pedantic, tiresome, and inappropriate to analyse their literal meaning and exact consequences. They know all this nearly as well as the critic, who wastes, in their view, his time and his emotions in exciting himself too much over what, on his own showing, cannot possibly happen. Nevertheless, what is said before the world, is still of deeper consequence than the subterranean breathings and well-informed whisperings, knowledge of which allows inside opinion to feel superior to outside opinion, even at the moment of bowing to it.

But there is a further complication. In England (and perhaps elsewhere also) there are *two* outside opinions, that which is expressed in the newspapers and that which the mass of ordinary men privately suspect to be true. These two degrees of the outside opinion are much nearer to one another than they are to the inside, and under some aspects they are identical; yet there is under the surface a real difference between the dogmatism

and definiteness of the press and the living, indefinite belief of the individual man. I fancy that even in 1919 the average Englishman never really believed in the indemnity; he took it always with a grain of salt, with a measure of intellectual doubt. But it seemed to him that for the time being there could be little practical harm in going on the indemnity tack, and also that, in relation to his feelings at that time, a belief in the possibility of boundless payments by Germany was in better sentiment, even if less true, than the contrary. Thus the recent modification in British outside opinion is only partly intellectual, and is due rather to changed conditions; for it is seen that perseverance with the indemnity does now involve practical harm, whilst the claims of sentiment are no longer so decisive. He is therefore prepared to attend to arguments, of which he had always been aware out of the corner of his eye.

Foreign observers are apt to heed too little these unspoken sensibilities, which the voice of the press is bound to express ultimately. Inside opinion gradually affects them by percolating to wider and wider circles; and they are susceptible in time to argument, common sense, or self-interest. It is the business of the modern politician to be accurately aware of all three degrees; he must have enough intellect to understand the inside opinion, enough sympathy to detect the inner outside opinion, and enough brass to express the outer outside opinion.

Whether this account is true or fanciful, there can be no doubt as to the immense change in public sentiment over the past two years. The desire for a quiet life, for reduced commitments, for comfortable terms with our neighbours is now paramount. The megalomania of war has passed away, and every one wishes to conform himself with the facts. For these reasons the Reparation Chapter of the Treaty of Versailles is crumbling. There is little prospect now of the disastrous consequences of its fulfilment.

5. WAR DEBTS AND THE UNITED STATES

(i) *Cancellation* (1921)

Who believes that the Allies will, over a period of one or two generations, exert adequate force over the German Government, or that the German Government can exert adequate authority over its subjects, to extract continuing fruits on a vast scale from forced labour? No one believes it in his heart; no one at all. There is not the faintest possibility of our persisting with this affair to the end. But if this is so, then, most certainly, it will not be worth our while to disorder our export trades and disturb the equilibrium of our industry for two or three years; much less to endanger the peace of Europe.

The same principles apply with one modification to the United States and to the exaction by her of the debts which the Allied Governments owe. The industries of the United States would suffer, not so much from the competition of cheap goods from the Allies in their endeavours to pay their debts, as from the inability of the Allies to purchase from America their usual proportion of her exports. The Allies would have to find the money to pay America,

not so much by selling more as by buying less. The farmers of the United States would suffer more than the manufacturers; if only because increased imports can be kept out by a tariff, whilst there is no such easy way of stimulating diminished exports. It is, however, a curious fact that whilst Wall Street and the manufacturing East are prepared to consider a modification of the debts, the Middle West and South is reported (I write ignorantly) to be dead against it. For two years Germany was not required to pay cash to the Allies, and during that period the manufacturers of Great Britain were quite blind to what the consequences would be to themselves when the payments actually began. The Allies have not yet been required to begin to pay cash to the United States, and the farmers of the latter are still as blind as were the British manufacturers to the injuries they will suffer if the Allies ever try seriously to pay in full.

The decisive argument, however, for the United States, as for Great Britain, is not the damage to particular interests (which would diminish with time), but the unlikelihood of permanence in the exaction of the debts, even if they were paid for a short period. I say this, not only because I doubt the ability of the European Allies to pay, but because of the great difficulty of the problem which the United States has before her in any case in balancing her commercial account with the Old World.

American economists have examined some-

what carefully the statistical measure of the change from the pre-war position. According to their estimates, America is now owed more interest on foreign investments than is due from her, quite apart from the interest on the debts of the Allied Governments; and her mercantile marine now earns from foreigners more than she owes them for similar services. Her excess of exports of commodities over imports approaches \$3000 million a year; whilst, on the other side of the balance, payments, mainly to Europe, in respect of tourists and of immigrant remittances are estimated at not above \$1000 million a year. Thus, in order to balance the account as it now stands, the United States must lend to the rest of the world, in one shape or another, not less than \$2000 million a year, to which interest and sinking fund on the European Governmental War Debts would, if they were paid, add about \$600 million.

Recently, therefore, the United States must have been lending to the rest of the world, mainly Europe, something like \$2000 million a year. Fortunately for Europe, a fair proportion of this was by way of speculative purchases of depreciated paper currencies. From 1919 to 1921 the losses of American speculators fed Europe; but this source of income can scarcely be reckoned on permanently. For a time the policy of loans can meet the situation; but, as the interest on past loans mounts up, it must in the long run aggravate it.

Mercantile nations have always employed

large funds in overseas trade. But the practice of foreign investment, as we know it now, is a very modern contrivance, a very unstable one, and only suited to peculiar circumstances. An old country can in this way develop a new one at a time when the latter could not possibly do so with its own resources alone; the arrangement may be mutually advantageous, and out of abundant profits the lender may hope to be repaid. But the position cannot be reversed. If European bonds are issued in America on the analogy of the American bonds issued in Europe during the nineteenth century, the analogy will be a false one; because, taken in the aggregate, there is no natural increase, no *real* sinking fund, out of which they can be repaid. The interest will be furnished out of new loans, so long as these are obtainable, and the financial structure will mount always higher, until it is not worth while to maintain any longer the illusion that it has foundations. The unwillingness of American investors to buy European bonds is based on common sense.

At the end of 1919 I advocated (in *The Economic Consequences of the Peace*) a reconstruction loan from America to Europe, conditioned, however, on Europe's putting her own house in order. In the past two years America, in spite of European complaints to the contrary, has, in fact, made *very large* loans, much larger than the sum I contemplated, though not mainly in the form of regular, dollar-bond issues. No particular conditions were attached to these

loans, and much of the money has been lost. Though wasted in part, they have helped Europe through the critical days of the post-Armistice period. But a continuance of them cannot provide a solution for the existing dis-equilibrium in the balance of indebtedness.

In part the adjustment may be effected by the United States taking the place hitherto held by England, France, and (on a small scale) Germany in providing capital for those new parts of the world less developed than herself—the British Dominions and South America. The Russian Empire, too, in Europe and Asia, is to be regarded as virgin soil, which may at a later date provide a suitable outlet for foreign capital. The American investor will lend more wisely to these countries, on the lines on which British and French investors used to lend to them, than direct to the old countries of Europe. But it is not likely that the whole gap can be bridged thus. Ultimately, and probably soon, there must be a readjustment of the balance of exports and imports. America must buy more and sell less. This is the only alternative to her making to Europe an annual present. Either American prices must rise faster than European (which will be the case if the Federal Reserve Board allows the gold influx to produce its natural consequences), or, failing this, the same result must be brought about by a further depreciation of the European exchanges, until Europe, by inability to buy, has reduced her purchases to articles of necessity. At first the

American exporter, unable to scrap all at once the processes of production for export, may meet the situation by lowering his prices; but when these have continued, say for two years, below his cost of production, he will be driven inevitably to curtail or abandon his business.

It is useless for the United States to suppose that an equilibrium position can be reached on the basis of her exporting at least as much as at present, and at the same time restricting her imports by a tariff. Just as the Allies demand vast payments from Germany, and then exercise their ingenuity to prevent her paying them, so the American Administration devises, with one hand, schemes for financing exports, and, with the other, tariffs which will make it as difficult as possible for such credits to be repaid. Great nations can often act with a degree of folly which we should not excuse in an individual.

By the shipment to the United States of all the bullion in the world, and the erection there of a sky-scraping golden calf, a short postponement may be gained. But a point may even come when the United States will refuse gold, yet still demand to be paid—a new Midas vainly asking more succulent fare than the barren metal of her own contract.

In any case the readjustment will be severe, and injurious to important interests. If, in addition, the United States exacts payment of the Allied debts, the position will be intolerable. If she persevered to the bitter end, scrapped her

export industries and diverted to other uses the capital now employed in them, and if her former European associates decided to meet their obligations at whatever cost to themselves, I do not deny that the final result might be to America's material interest. But the project is utterly chimerical. It will not happen. Nothing is more certain than that America will not pursue such a policy to its conclusion; she will abandon it as soon as she experiences its first consequences. Nor, if she did, would the Allies pay the money. The position is exactly parallel to that of German Reparation. America will not carry through to a conclusion the collection of Allied debt, any more than the Allies will carry through the collection of their present Reparation demands. Neither, in the long run, is serious politics. Nearly all well-informed persons admit this in private conversation. But we live in a curious age when utterances in the press are deliberately designed to be in conformity with the worst-informed, instead of with the best-informed, opinion, because the former is the wider spread; so that for comparatively long periods there can be discrepancies, laughable or monstrous, between the written and the spoken word.

If this is so, it is not good business for America to embitter her relations with Europe, and to disorder her export industries for two years, in pursuance of a policy which she is certain to abandon before it has profited her.

For the benefit of any reader who enjoys an

abstract statement, I summarise the argument thus. The equilibrium of international trade is based on a complicated balance between the agriculture and the industries of the different countries of the world, and on a specialisation by each in the employment of its labour and its capital. If one country is required to transfer to another without payment great quantities of goods, for which this equilibrium does not allow, the balance is destroyed. Since capital and labour are fixed and organised in certain employments and cannot flow freely into others, the disturbance of the balance is destructive to the utility of the capital and labour thus fixed. The *organisation*, on which the wealth of the modern world so largely depends, suffers injury. In course of time a new organisation and a new equilibrium can be established. But if the origin of the disturbance is of temporary duration, the losses from the injury done to organisation may outweigh the profit of receiving goods without paying for them. Moreover, since the losses will be concentrated on the capital and labour employed in particular industries, they will provoke an outcry out of proportion to the injury inflicted on the community as a whole.

Most Americans, with whom I have discussed this question, express themselves as personally favourable to the cancellation of the European debts, but add that so great a majority of their countrymen think otherwise that such a proposal is at present outside practical politics. They think, therefore, that it is premature to

discuss it; for the present, America must pretend she is going to demand the money and Europe must pretend she is going to pay it. Indeed, the position is much the same as that of German Reparation in England in the middle of 1921. Doubtless my informants are right about this public opinion, the mysterious entity which is the same thing perhaps as Rousseau's General Will. Yet, all the same, I do not attach, to what they tell me, too much importance. Public opinion held that Hans Andersen's Emperor wore a fine suit; and in the United States especially, public opinion changes sometimes, as it were, *en bloc*.

If, indeed, public opinion were an unalterable thing, it would be a waste of time to discuss public affairs. And though it may be the chief business of newsmen and politicians to ascertain its momentary features, a writer ought to be concerned, rather, with what public opinion should be. I record these platitudes because many Americans give their advice, as though it were actually immoral to make suggestions which public opinion does not now approve. In America, I gather, an act of this kind is considered so reckless that some improper motive is at once suspected, and criticism takes the form of an inquiry into the culprit's personal character and antecedents.

Let us inquire, however, a little more deeply into the sentiments and emotions which underlie the American attitude to the European debts. They want to be generous to Europe, both out

of good feeling and because many of them now suspect that any other course would upset their own economic equilibrium. But they don't want to be "done." They do not want it to be said that once again the old cynics in Europe have been one too many for them. Times, too, have been bad and taxation oppressive; and many parts of America do not feel rich enough at the moment to favour a light abandonment of a possible asset. Moreover, these arrangements, between nations warring together, they liken much more closely than we do to ordinary business transactions between individuals. It is, they say, as though a bank having made an unsecured advance to a client, in whom they believe, at a difficult time when he would have gone under without it, this client were then to cry off paying. To permit such a thing would be to do an injury to the elementary principles of business honour.

The average American, I fancy, would like to see the European nations approaching him with a pathetic light in their eyes and the cash in their hands, saying, "America, we owe to you our liberty and our life; here we bring what we can in grateful thanks, money not wrung by grievous taxation from the widow and orphan, but saved, the best fruits of victory, out of the abolition of armaments, militarism, Empire, and internal strife, made possible by the help you freely gave us." And then the average American would reply: "I honour you for your integrity. It is what I expected. But

I did not enter the war for profit or to invest my money well. I have had my reward in the words you have just uttered. The loans are forgiven. Return to your homes and use the resources I release to uplift the poor and the unfortunate." And it would be an essential part of the little scene that his reply should come as a complete and overwhelming surprise.

Alas for the wickedness of the world! It is not in international affairs that we can secure the sentimental satisfactions which we all love. For only individuals are good, and all nations are dishonourable, cruel, and designing. And whilst the various Prime Ministers will telegraph something suitable, drafted by their private secretaries, to the effect that America's action makes the moment of writing the most important in the history of the world and proves that Americans are the noblest creatures living, America must not expect adequate or appropriate thanks.

(ii) *The Balfour Note* (1925)

The Balfour Note insists that our receipts from Germany *plus* our receipts from our Allies must equal our payments to the United States. When the Note was written, its effect was indeterminate. We did not know how much it would require France to pay, or the proportion that this would bear to what Germany would be paying France. Now we can make limiting estimates of both sums.

We have to pay the United States about £35,000,000 a year, rising to £40,000,000. The Dawes Scheme will yield, if and when it is in *full* operation, and after allowing for various prior charges, about £100,000,000 a year. France's share of this will be about £54,000,000, Italy's £10,000,000 (less at first), and ours £24,000,000. (I neglect the minor Allies because they would complicate the calculation and hardly affect the result.) Thus the Balfour Note demands that France and Italy should pay Great Britain not less than £16,000,000 a year. Since the aggregate debts of these two Powers to ourselves and to the United States respectively are about equal (our share of Italy's total debt is greater, and of France's less), we must assume that the United States will not settle for a smaller sum than what we receive. If the whole of Italy's share of Reparations is devoted to her debts, France is left, on these assumptions, with £22,000,000 to pay. In this case the net result of the Debt Settlements and the Dawes Scheme would be that the receipts from Germany would be distributed as follows:

United Kingdom	Nil.
Italy	Nil.
France	£32,000,000
United States ¹	£58,000,000

Very improbable things are easier said than done. Who believes that this will ever be done?

But we have not yet reached the gravamen of

¹ Including her own direct share.

my criticism of the Balfour Note. The above is what would happen if the Dawes Scheme is perfectly successful. If the Dawes Scheme is only partly successful, then, by the principle of the Balfour Note, *France must make good the difference* to ourselves and the United States. For example, if the Dawes Scheme produces half its maximum, which, in the opinion of many good judges, would be a considerable achievement, France will get less than nothing at all and *more than the whole* of Germany's payments will go to the United States. France would become, in fact, a deferred claimant on a third share of the Dawes Scheme, if the Scheme works very well, and a guarantor of Germany, if it works less well. Is not any one very silly who thinks that this can come to pass?

It is obvious that France will never agree to such a settlement. But suppose *per impossibile* that she did. In this case Great Britain and the United States have, theoretically, no further interest whatever in the operation or productivity of the Dawes Scheme. France becomes the only interested party,—interested not merely as a creditor but as a guarantor who must make deficiencies good.

This fatal objection is necessarily inherent in the Balfour Note. It is of the essence of the Note that the less Germany pays, the *more* France shall pay;—that is to say, the less France is in a position to pay, the more she shall pay. Diplomatically and financially alike, this is topsy-turvy. It would never bring us cash;

yet it would destroy our diplomatic authority as a moderator between France and Germany. The Foreign Office would have sold its influence for a mess of pottage which the Treasury would never taste.

The Balfour Note, therefore, is bad in principle. There can be no working settlement except on the exactly opposite principle, namely that the less Germany pays, the *less* France shall pay. The amount of France's payment must vary in the same direction as Germany's, not in the opposite direction. This was the principle of the suggestion, which I offered recently, by which France's payment should be a proportion of her receipts from Germany. According to current report, France herself has put forward just this principle through the mouth of M. Clémentel. I suggested that the proportion be one-third. M. Clémentel's reported offer would amount, on the assumption that the United States got the same terms, to about half my figure. But it does not follow that he would not offer more to obtain a settlement on these lines.

Such a settlement would increase, instead of diminishing, the interest of ourselves and the United States in the Dawes Scheme. We should have, between us, a bigger interest than France. We might, in this way, obtain a moderate contribution towards our American debt, corresponding to that part of it which we contracted, indirectly, on French account. We should certainly place ourselves in a strong

moral and diplomatic position to claim a moderating and pacific influence in the Franco-German problems which still lie ahead.

(iii) *Cancellation* (1928)¹

Let us remember the origin of the War Debts. Soon after the beginning of the war it was clear that certain of our Allies—Russia and Belgium in the first instance, but subsequently all of them—would require financial assistance. We might have given this in loans or in subsidies. Loans were preferred to subsidies, in order to preserve a greater sense of responsibility and economy in the spending of them. But though financial assistance took the form of loans, it is scarcely to be supposed that the lending countries regarded them at the time as being in the nature of ordinary investments. Indeed it would have been very illogical to do so. For we often gave assistance in the form of money, precisely because we were less able to assist with men or ships. For example, when we sent guns to Italy to help her after her first serious reverse, she had to pay for them by loans. But when matters got worse still, and we sent not only guns but gunners too to man them and to be killed, then we charged nothing. Yet in the former case Italy's contribution was the greater and in the latter ours. In particular,

¹ The material for this essay was prepared in connection with a Broadcast "Talk" given on May 3, 1928.

America's contribution for some time after she came into the war was mainly financial, because she was not yet ready to help in any other way. So long as America was sending materials and munitions to be used by Allied soldiers, she charged us for them, and these charges are the origin of what we now owe her. But when later on she sent men too, to use the munitions themselves, then we were charged nothing. Evidently there is not much logic in a system which causes us to owe money to America, not because she was able to help us so much, but because at first she was able to help us, so far at least as man power was concerned, so little.

This does not mean that the financial help which America gave us was not of the most extraordinary value to us. By the time that America came into the war our own resources as a lender were literally at an end. We were still at that time just about able to finance ourselves, but we had reached a point when we could no longer finance our Allies as well. America's financial assistance was therefore quite invaluable. From the moment she entered the war she undertook to lend whatever was required for the expenditure of ourselves and our Allies in the United States, including some contribution to support the Foreign Exchanges. But she was not prepared to make loans for use outside America. Great Britain had therefore to go on making loans to her Allies for such expenditure—

with the result that we had to lend our Allies after America came into the war an amount almost equal to what we ourselves borrowed. More precisely, we borrowed from the United States, after she came into the war, £850,000,000, and lent to our Allies during the same period £750,000,000; so that in effect it was true—what the Americans have always been concerned to deny—that the loans she made to us were for the purpose of financing our Allies rather than for ourselves.

The result was that by the end of the war we were owed by our Allies about £1,600,000,000, whilst we, in our turn, owed to the United States £850,000,000.

Since the war, the question has been constantly debated whether these sums ought to be treated as investments, just like any other business transaction, or whether regard should be paid to their origin and to the circumstances in which they were made. It has been the British view that they were not made as business transactions and should not be treated as such. It has been the American view, on the other hand, that they should be taken at their face value, that is to say, as bonds due and payable, tempered only by considerations as to the capacity of the debtor to pay, and, in practice, by a willingness on the part of the United States to accept a low rate of interest.

During the Peace Conference the British Government urged that the Allied War Debts should be entirely cancelled. Mr. Lloyd

George raised the matter again with President Wilson in August 1920. Finally, in August 1922, in the famous Note written by Lord Balfour, the considered British view, from which we have never gone back, was set forth. In this Note the British Government declared their willingness to cancel the whole of what their Allies owed them, and also to forgo their own claims on Germany in favour of the other Allies, if the United States in turn would relieve them of their debt. By such an arrangement Great Britain would have been giving up on paper more than twice what she gained. The offer still holds good.

This policy was not accepted by the United States, and a separate settlement has been made between each pair of countries in turn. The settlement made with Great Britain is equivalent to charging a rate of interest of 3·3 per cent on the whole amount due. The American settlement with France is equivalent to repayment at 1·6 per cent interest, and that with Italy to repayment at 0·4 per cent interest. Thus, the American settlement with Great Britain is twice as onerous as that with France and eight times as onerous as that with Italy. Great Britain, in her turn, has made arrangements with France and Italy, and has in both cases let them off lighter even than has the United States—the British settlement with France being 10 per cent easier and that with Italy 33 per cent easier than the corresponding American settlements. Thus, whilst the other

Allies have been largely relieved this country is left with the task of repaying her whole burden, subject only to the mitigation that the rate of interest charged, namely, 3·3 per cent, is moderate.

The effect of this settlement is that Great Britain will have to pay to the United States a sum of about £33,000,000 annually up to 1933, rising to nearly £38,000,000 annually thereafter from that year until 1984, when the debt will have been discharged. The reality of the weight of this burden may be illustrated by certain calculations which I made in the summer of 1923 when the details of Mr. Baldwin's settlement with Washington were first made public. We shall be paying to the United States each year for sixty years a sum equivalent to two-thirds of the cost of our Navy, a sum nearly equal to our State expenditure on Education, a sum which exceeds the total burden of our pre-war debt. Looked at from another standpoint, it represents more than the total normal profits of our coal mines and our mercantile marine added together. With these sums we could endow and splendidly house *every month* for sixty years one new university, one new hospital, one new institute of research, etc. etc. With an equal sacrifice over an equal period we could abolish slums and re-house in comfort the half of our population which is now inadequately sheltered.

On the other hand, we are now receiving from our Allies and from Germany an import-

ant contribution as an offset to what we ourselves pay to the United States. It will be interesting to establish a rough balance-sheet.

In 1928 we shall receive from our Allies £12,800,000 and pay the United States £33,200,000; and by 1933 these figures will have risen to £17,700,000 and £37,800,000. Thus apart from our share of German Reparations, we shall be paying annually in respect of War Debts about £20,000,000 more than we receive. Now if the Dawes Annuities are paid by Germany in full, we shall come out just about "all-square." For the normal Dawes Annuity when it has reached its full figure (less the service of German loans, etc.) will amount to £117,000,000, of which our share (excluding the receipts of other parts of the Empire) will be about £22,000,000. Mr. Churchill has estimated that in the current financial year, 1928-29, our payments out will be £32,845,000, and our total receipts nearly £32,000,000.

It is not probable that these receipts will be realised in full. But it will enable us to summarise the situation if we assume for the moment that they are so realised. In this case, each Ally would be able to pay the United States out of their receipts from Germany. When the Allied Debt payments to the United States have reached their maximum amount under the existing settlements, they will total £83,000,000 per annum (the *average* amount payable annually over the whole period works

out at a total of £61,000,000). If we add to this the direct American share in German Reparations, the United States will be receiving £78,000,000 annually out of the £117,000,000 receivable by the Allies from Germany, or 67 per cent, *plus* £10,000,000 from Italy not covered by Reparations; or if we take the average payments, in lieu of the maximum, the United States will be receiving £66,000,000 out of £117,000,000 or 57 per cent. In either case Great Britain would receive, on balance, nothing.

It follows from the above that if the maximum Dawes Annuities were to be reduced by one-third—which, in the opinion of many of us, is highly probable—the United States will, by the time that the Allied payments to her have reached their full figure, be the sole beneficiary. In this event the net result of all War Debt settlements would be to leave the United States—on balance and off-setting receipts against payments—receiving from Germany £78,000,000 per annum, and no one else getting anything.

I have put the calculation in this form because it renders it very clear why, in the minds of the Allies, the question of further relief to Germany is intimately bound up with the question of their own obligations to the United States. The official American attitude that there is no connection between the two, is a very hollow pretence. The resettlement of the Dawes Scheme is one to which the United States must

be, in one way or another, a party. But—let me add—any concession she may make will go entirely to the relief of Germany and the European Allies, Great Britain adhering to her principle of receiving nothing on balance.

If all, or nearly all, of what Germany pays for Reparations has to be used, not to repair the damage done, but to repay the United States for the financial part which she played in the common struggle, many will feel that this is not an outcome tolerable to the sentiments of mankind or in reasonable accord with the spoken professions of Americans when they entered the war or afterwards. Yet it is a delicate matter, however keenly the public may feel, for any Englishman in authority to take the initiative in saying such things in an official way. Obviously, we must pay what we have covenanted to pay, and any proposal, if there is to be one, must come from the United States. It fell to my lot during the war to be the official draftsman in the British Treasury of all the financial agreements with the Allies and with the United States out of which this situation has arisen. I was intimately familiar, day by day, with the reasons and motives which governed the character of the financial arrangements which were made. In the light of the memories of those days, I continue to hope that in due course, and in her own time, America will tell us that she has not spoken her last word.