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# The Meaning of War Debts

By FELIX MORLEY

CONGRESS, in approving the debt moratorium resolution last December, expressly declared it contrary to our legislative policy "that any of the indebtedness of foreign countries to the United States should be in any manner cancelled or reduced." At Lausanne, in July of this year, the principal Allied Powers agreed to a reduction, in effect a cancellation, of nine-tenths of Germany's reparation liability as scheduled under the Young Plan. Far from adequate attention has as yet been given to the reconcilability of these two policies, as separately laid down within the past year.

There are, however, many who foresee the crucial difficulties which will inevitably arise if attempt is made to force the unpaid creditors of Germany to meet their obligations to this country. And for all such the latest investigation \* of the Brookings Institution, on the subject of "War Debts and World Prosperity," comes opportunely. Herein is set down, in full detail, yet with unusual readability, the full story of the inter-governmental debt problem as it has developed since the end of the war. Undoubtedly, the book is one which will be widely and deservedly quoted as this problem reaches its final stage and becomes politically more acute. As the Preface points out, the present volume is to a large extent a culmination of previous investigations carried on by the Brookings Institution, in the field of post-war governmental debt problems. It rounds out and complements the earlier specific studies in this field initiated in 1923 with that on "Germany's Capacity to Pay."

The study clearly reveals both the consistency and the accuracy of the official American claim that there is no legal connection between war debts and reparation payments. "But while there is no legal connection between the two sets of obligations, either inherently or as a result of accepted agreement, there is between them so important an economic relationship that the legal aspects of the problem have very little realistic significance." In practice, the authors conclude, the tendency of executive policy in this country has been definitely and inevitably "toward an articula-

tion of debt payments with reparation receipts." Since Lausanne, the virtual removal of reparations from the world economic picture "renders inevitable a reconsideration of the existing war debt agreements."

What is inevitable, the authors of this study maintain, is also highly desirable. Lengthy examination is given to the question of whether the attempts to collect reparations and inter-Allied debts have impeded economic recovery since the war. It is maintained that the effort has helped to create the present world-wide economic disorders. And it is pointed out that the trade policies of the creditor countries have on the whole been diametrically opposed to facilitation of reparation and debt payments.

Consideration of the relation of the war debts to American prosperity leads the authors of this study to conclude that the United States would be benefited economically by elimination of the problem from the international situation. The losses resulting to the Treasury from intensified depression, attributable in part to war debt policy, are held to outweigh by far the obvious gains to the Treasury from debt collections. It is denied that the export trade of this country, and particularly the export trade to Europe, is relatively unimportant to American prosperity. "There never was a more complete economic fallacy than the one now prevalent—that this country can turn its back on Europe and prosper by so doing."

The comprehensive exposition, which includes details of all the post-war debt settlements, leads to the following well-sustained, although provocative, conclusions:

1. A complete obliteration of all reparation and war debt obligations would promote, rather than retard, world economic prosperity.

2. The collection of these inter-governmental debts would be economically detrimental, rather than beneficial, to the creditor countries.

\* *War Debts and World Prosperity*, by Harold G. Moulton and Leo Pasvolosky (The Brookings Institution, Washington, D. C.), 498 pages, \$3.00.