VIII

WAR DEBTS AND SETTLEMENTS

1. *War Debts and Financial Imperialism*

Since the opening of the war, in 1917, the United States has established official financial relations with sixteen European countries. These relations have taken the form of loans and credits from the United States Treasury for the purchase of war supplies and for relief and reconstruction. The Treaty obligations imposed on the defeated countries have also played a leading rôle in official post-war imperialism.

Loans are frequently made by one government to another. The war indemnities imposed as a result of the Versailles Treaty are merely the extension and the application of an accepted practice in the struggle for national supremacy. But the loans and indemnities resulting from the War of 1914 are so vast as to give them quite a new significance in international relations.

Strong, rich countries have frequently subjugated poor and weak countries. Originally this was done crudely, by military victory and by slavery. The devices employed subsequent to the recent war, built upon modern business experience, accomplish the result by substituting dictated treaties for vassalage, and guaranteed bonds for slavery.

The really novel feature of the present situation is that the debts between the Allied Nations, resulting from the war, seem to be as onerous, in some cases, as the penalties imposed by the victors upon the vanquished. During the war the Government of the United States loaned to its European Allies about $9,600 million. Under the Treaty and the provisions for reparations payments the United States is a beneficiary in a very minor degree. Germany owes the United States Government nothing beyond some minor claims for war damages and for the costs of the army of occupation, while Great Britain owes about \$4.6 billion; France about \$4 billion; Italy about \$2 billion, and Belgium about half a billion.[1]

2. *War Mortgages*

Similar creditor-debtor relations developed very widely as a result of the War of 1914. The United States was by no means the only lender. From the outset, Great Britain, France and Germany carried a part of the burdens which their weaker allies were unable to shoulder. These inter-ally loans grew, during the war years, to an unprecedented volume. Great Britain, for example, while borrowing heavily from the United States, loaned to Belgium, Czecho-Slovakia, Esthonia, France, Greece, Italy, Latvia, Lithuania, Poland, Russia, and other countries about \$11.2 billion. France borrowed largely from both Britain and the United States, while at the same time lending to Belgium, Jugo-Slavia, Roumania, Poland, Russia, Greece, and other nations a total of about \$3.5 billion.[2] In fact, practically all of the Baltic and Balkan states have drawn heavily on France during the past eight years.[3]

With the termination of the war and the resumption of normal business relations, each of these debts became, for the lender, a potential source of revenue, both as to interest and principle. The obligations were so large that Britain, had she been able to collect four per cent interest and one per cent sinking fund on her war loans would have been in receipt of about half a billion dollars per year, or the equivalent of one-half of the return on her entire pre-war foreign investment of approximately \$20 billion. To be sure, no such payments were made, but the existence of the loans involved potential assets of immense proportions on the one side and potential liabilities of a formidable character on the other.

[1] Fisk, "Inter-Ally Debts," pp. 348–9.
[2] Idem.
[3] "Annuaire Général de la France," 1923, p. 279.

3. *United States Claims Against European Governments*

The United States was the largest lender of the war and the post-war periods, although the loans made by Great Britain were only a little less than those made by the United States. The loans to European Governments under the Liberty Loan Acts were: [1]

	Amounts in Millions
Belgium	$ 349.2
Czecho-Slovakia	67.3
France	2,997.5
Great Britain	4,277.0
Greece	48.2
Italy	1,648.0
Roumania	25.0
Russia	187.7
Serbia	26.8
Total	$9,626.7

These loans placed nine European governments in the debt of the United States to the extent of more than nine billion. Later they were supplemented by the sale, to these and other European countries, of surplus war material in a total amount of $574.8 million.[2]

The net result is an economic advantage in favour of the United States of such magnitude that if all of these nations should pay four per cent interest and one per cent toward the amortization of the debt, the Treasury of the United States would be in receipt of more than half a billion dollars per year or enough to carry one-fifth of the total federal budget.

4. *The British Debt Settlement* [3]

The situation is well illustrated by the British debt settlement which is evidently regarded both by the British and American Treasury officials as a fair adjustment of these inter-allied financial relations.

[1] U. S. "Statistical Abstract," 1922, p. 555.
[2] Ibid., p. 556.
[3] U. S. World War Foreign Debt Commission, "Great Britain, Proposal, etc."

By mutual agreement, the principal of the British debt to the United States Government was fixed at $4.6 billion, for which the British Government issues 3–3½ per cent bonds at par. Beside paying interest on the bonds the British Government agrees to pay the principal in annual instalments on a fixed schedule, according to which the payments for the first ten years average about $160 million per year and for the following fifty-two years about $180 million per year. Under this arrangement the British Government will pay back $4.6 billion of principal and $6.5 billion of interest, making a total of $11.1 billion. The last payment is due in 1984.

The total net income of the British state for 1923 was 910.8 million pounds Sterling. On the basis of the debt settlement, the demands of the United States for the year 1923 will equal about 3.6 per cent of the total British revenue. Should the revenue remain approximately the same during the next sixty-two years, it will require the equivalent of the total British revenue for two and a quarter years to meet its obligations under the debt settlement plan.

Should the British debt settlement be accepted as a precedent, and a similar arrangement be made with France, Italy and Belgium, the United States would receive, from the treasuries of these four countries alone, about $425 million annually, the last payments being made somewhere about 1985 or 1990. The total volume of these payments, interest and principal, if made in full, would exceed $25 billion.

Britain, France, Italy, and Belgium were the four principal allies of the United States in the War of 1917. The United States fought with them and rendered them economic assistance. The cost to these nations of the economic assistance rendered by the United States will exceed four hundred millions per year for the next half century.

Historically, it is no uncommon thing for the victor to impose onerous burdens upon the vanquished. But there is no modern instance where it has cost four nations $25 billion to call in a sympathetic ally.

There is, of course, no certainty that the debts will be paid, either as to principal or interest. Yet, as the United States Secretary of the Treasury (Mr. Mellon) has repeatedly pointed out, these debts represent business obligations, and should they be scrapped, a serious blow would be struck at the whole creditor-debtor relation upon which modern business rests. If this point of view is finally accepted, and if the British Debt Settlement is followed in principle, sixteen European nations will remain official debtors to the United States until nearly the end of the present century, and capitalist empires, in their future dealings with one another, will be able to point to this very important instance as a precedent for future exactions along similar lines.

5. *Stripping Economic Rivals*

So much for the relation which recent imperial practice establishes among allies who lend and borrow. As a result of the late war the great nations of Europe are actual or potential tribute payers to the United States for at least two generations. The same principle of creditor and debtor, worked out in far more elaborate detail, appears in the treatment accorded to the defeated enemy nations by the victorious Allies. This is particularly true of Germany, which was the strongest, economically, of the defeated nations.

Austria-Hungary was dismembered as a result of the war. Turkey was stripped and humiliated. Germany alone remained to carry the economic burdens which the Allies chose to impose. While the populations of the Allied countries were assured that the war was being waged against militarism and as a means of preserving world peace, the secret treaties, signed in 1915, 1916 and 1917 between the representatives of the various Allied Governments made it very clear that the Allies were seeking important economic advantages.

The Treaty which brought Italy into the War on the side of the Allies (April 26, 1915) contained specific provisions for a loan of $250 million and for the cession of certain territory lying along the Adriatic to Italy. The sixteen articles of this treaty are very precise as to the exact nature of the economic gains which Italy is to receive.[1]

A note from the Minister of Foreign Affairs to the French Ambassador at Petrograd notes that the Government of the Republic intends to demand, among other peace terms, Alsace and Lorraine. "At the same time strong economic demands must be taken into consideration so as to include within French territory the whole of the industrial iron basin of Lorraine and the whole of the industrial coal basin of the valley of the Saar." Later, in a secret telegram to the Russian Ambassador in Paris the aspirations of France are described as including Alsace and Lorraine, the Saar and the establishment of an independent state in the German trans-Rhenish territory.[2]

The same Russian publication gives the essence of the treaty by which it was proposed to divide Turkey, and in addition, the economic offers that were made to Italy and to Greece as a price for joining the cause of the Allies.[3]

Had there remained any doubt as to the economic plans and ambitions of the Allied powers, it was dispelled by the provisions of the Treaty of Versailles. This point has been sufficiently elaborated in a number of books, among which "The Economic Consequences of the Peace" [4] and "Germany's Capacity to Pay" [5] are as well-reasoned and as clear as any others

Keynes points out [4] that the German economic system before the war depended on three main factors:

1. Overseas commerce, represented by the merchant marine, the colonies, foreign investments and overseas business connections;

2. The exploitation of German coal and iron resources, with the interests built on them.

[1] Russia, "Secret Diplomatic Documents," p. 13 ff.
[2] Ibid., pp. 19–20.
[3] Ibid., p. 11 ff., 21 ff.
[4] Keynes, "Economic Consequences of the Peace."
[5] Moulton & McGuire, "Germany's Capacity to Pay."

3. The transport and traffic systems inside of Germany. Moulton and McGuire[1] carry this argument one step farther, and show that, through transport, banking, commerce and investment Germany was a heavy buyer and seller in Britain, France, Belgium, Italy, Russia, the Balkans and so on, so that German business was an essential link in the chain of European business.

Two forces contended at the Treaty Table—one that desired to render Germany economically impotent, and the other that desired to make Germany pay for the war. While neither side won a complete victory, the Treaty contained all of the provisions that were considered necessary to destroy the efficiency of German economic life:

1. Germany ceded to the Allies all of her merchant vessels, built and building, of more than 1600 gross tons; half of those between 1000 and 1600 tons, and a quarter of those under 1000 tons; all of the over-seas possessions, thus practically destroying the elaborate commercial system which Germany had erected, and upon which she depended for the purchase of her raw materials and imported food.

2. The iron of Lorraine, the coal of the Saar for a long period, the coal of Upper Silesia, were lost to Germany under the Treaty. In addition, heavy mortgages were laid on the coal of the Ruhr. In 1913, three-quarters of the iron produced in Germany came from Lorraine, while Upper Silesia, the Saar and the Ruhr provided four-fifths of Germany's coal. The Treaty therefore dealt a severe blow to German heavy industry.

3. Under the Dawes Plan the railroads of Germany, which were formerly state owned, pass under the control of a private company.

6. *A Technique of Exploitation*

Ostensibly the Treaty was sufficiently rigorous to destroy Germany's capacity to compete, particularly in the heavy industries. Actually, German heavy industry came back with astonishing rapidity, threatening to take from the French iron masters

[1] Moulton & McGuire, supra.

the markets of Central Europe. The story of this conflict between German and French heavy industry is brilliantly told from the German side by Phillips Price,[1] and on the French side by Francis Delaisi.[2]

There were other critical elements in the situation. The currencies of Germany, Austria, Poland, and certain Baltic and Balkan states passed through a period of disastrous liquidation. The currencies of France, Belgium and Italy threatened to follow the same lead. Such a general dislocation of financial affairs would have added to the chaos in which European economic life found itself in 1923.[3]

Added to this economic dislocation was the political tension incident to the occupation of the Ruhr. When the British Labour Ministry took office, early in 1923, the Ruhr situation seemed likely to involve Britain and France as well as France and Germany in serious controversies. Throughout the year the situation became more aggravated, until finally, on November 30, 1923, the Allied Governments agreed to the appointment by the Reparations Commission of two expert committees to consider the balancing of the German budget, the stabilization of the currency, and to investigate the amount of German capital exported. Two weeks later the Reparations Commission decided to invite Charles G. Dawes and Owen D. Young to serve as American experts in connection with the inquiry into Germany's financial situation. Four months later, on April 9, 1924, the two committees submitted their reports.[4]

Part I of the Dawes Report begins with the words: "We have approached our task as business men anxious to obtain effective results." It is in these terms that the Report must be read and accepted—as an effort of the most advanced business elements of the Allied countries to stabilize the business life of Europe.

There are four particularly significant provisions in the

[1] Price, "Germany in Transition."

[2] "Manchester Guardian Commercial: European Reconstruction," pp. 846–9, 879–82. "Manchester Guardian Commercial," v. 7, pp. 197–8.

[3] "Year Book of the Exchange Rates of the World."

[4] "World Peace Foundation," v. 6, pp. 329–444.

Dawes Plan. The first involves the organization of a bank "entirely free from Government control or interference" which has "the exclusive right to issue paper money in Germany for the period of its charter, fifty years." The bank is under the control of a General Board, consisting of seven Germans and seven foreigners, one each of the following nationalities: British, French, Italian, Dutch, Belgian, American and Swiss. The Commissioner, or head of this General Board, is to be a foreigner, and while it is true that under the plan ten of the fourteen members of the Board must approve of each proposition involving an issue between the Germans and the Allies, the fact remains that the Bank is under foreign (non-German) control. Thus the ultimate financial policy of Germany is directed by foreigners, and the central financial system of the German Empire is a private and alien institution.

The second important provision involves the assignment, to the Reparations Commission, of the following German Government revenues: receipts from customs, alcohol, tobacco, beer and sugar. All of these revenues, in excess of 1,250 millions of gold marks per year will be turned back to the German Government. This billion and a quarter will be allotted, from the budget, to reparations payments.

The third provision calls for the payment of about 960 million gold marks per year through the bonding of German industry. The railroads, the largest single economic unit in Germany, were Government owned before the Dawes Plan took effect. Under the plan a private company is organized under the direction of a board of eighteen members, nine to be nominated by the German Government and the remaining nine to be named by the trustee of the railway bonds. The railroads have been assessed at 26 billion gold marks. Against this property the new company will issue eleven billions of bonds, two billions of preferred stock and thirteen billions of common stock. The bonds go to a representative of the Reparations Commission; three-fourths of the preferred stock is to be sold by the railroad to provide working capital and to eliminate certain debts; the balance of the preferred stock and all of the common stock goes to the German Government. The bonds carry a five per cent rate of interest, and a payment of one per cent for sinking fund. According to this schedule, the eleven billions of bonds, held by the Reparations Commission, will yield 660 million gold marks per year.

Similar provisions are made in the case of German industry. A bond issue of five billion gold marks is to be issued against German industries. These bonds are also to be held by the Reparations Commission and are to yield the same gross six per cent, or a total of 300 millions.

The fourth provision of the plan is unique. The budget, the railway and industrial bonds, and a transport tax of 290 million gold marks will yield a total of 2,500 gold marks after 1928. Up to that year the amounts are graduated. This is a minimum payment. The Report adds to this minimum an indefinite amount in the form of a Prosperity Index. Trade; budget receipts and expenditures; railroad traffic; value of sugar, tobacco, beer and alcohol consumed; total population, and the consumption of coal are all to be tabulated for the years 1927, 1928 and 1929. The result will be a base on which the Prosperity Index is to be computed. Should these items, for 1930, exceed the base by ten per cent, then in addition to paying 2,500 million gold marks for that year, Germany would pay 2,500 million plus ten per cent, or 2,750 millions in all. In this way, with the years 1927–9 as a base, the prosperity of Germany will be computed, and the payments will be graduated from a minimum of 2,500 millions to a maximum of 5,000 millions, which would mark a hundred per cent increase in prosperity.

At the outset of the Treaty negotiations, an attempt was made to fix an amount which the Germans could pay over a series of years. With the acceptance of the Dawes Report, this effort is abandoned. In its place there is set up a bank, under Allied control, which is the virtual master of German economic life; bonds are issued against the railroads and certain of the industries, from which the Reparations Commission will draw a stated income, supplemented by a budgetary, secured charge and a transport tax. In order to insure the Allies against any considerable increase in the efficiency of German economic life, there is established a device enabling the Allies to collect payments in proportion to the economic progress of Germany.

The payments per year are stated. The Dawes Report does not specify the number of years during which these payments are to be made. Virtually, Germany will pay until the Reparations Commission decides that she has paid enough.

This is the most complete modern system of exploitation ever devised and applied in the relations between great powers. Financial empires, dealing with weak and bankrupt countries, have frequently imposed terms that are equally harsh. The Nicaraguan loans, for example, involved more control of the economic life of that country than does the Dawes Plan in the case of Germany. Financial imperialism has meant the adoption of methods that would insure weak borrowing nations paying their debts to strong lending nations. The details of such transactions have already been given at length. These methods have not ordinarily been applied, however, in the dealings between strong nations.

Ordinarily, in transactions involving a weak and a strong nation, a simple assignment of revenue is all that is necessary. The Dawes Report provides additional safeguards in the form of rail industrial bonds. Thus the revenues of industry as well as the revenues of the state are pledged to the payment of the obligation.

The Dawes Report has won the approval of all of the principal nations of the world. It may be accepted, therefore, as the model which will serve for the guidance of relations between great empires in the future.

7. *The Principles of World Subjugation*

The Dawes Plan is a new venture. The relations between the nations, resulting from the War of 1914, are as yet so recent that they will not permit of more than a tentative generalization; nevertheless they represent the current results of the competitive nationalism that has grown up in the world during the present epoch. Western civilization, in its experimenting with new things, has hit upon these methods of international exploitation. Whatever may be said as to their permanence, their reality at the present moment can scarcely be doubted.

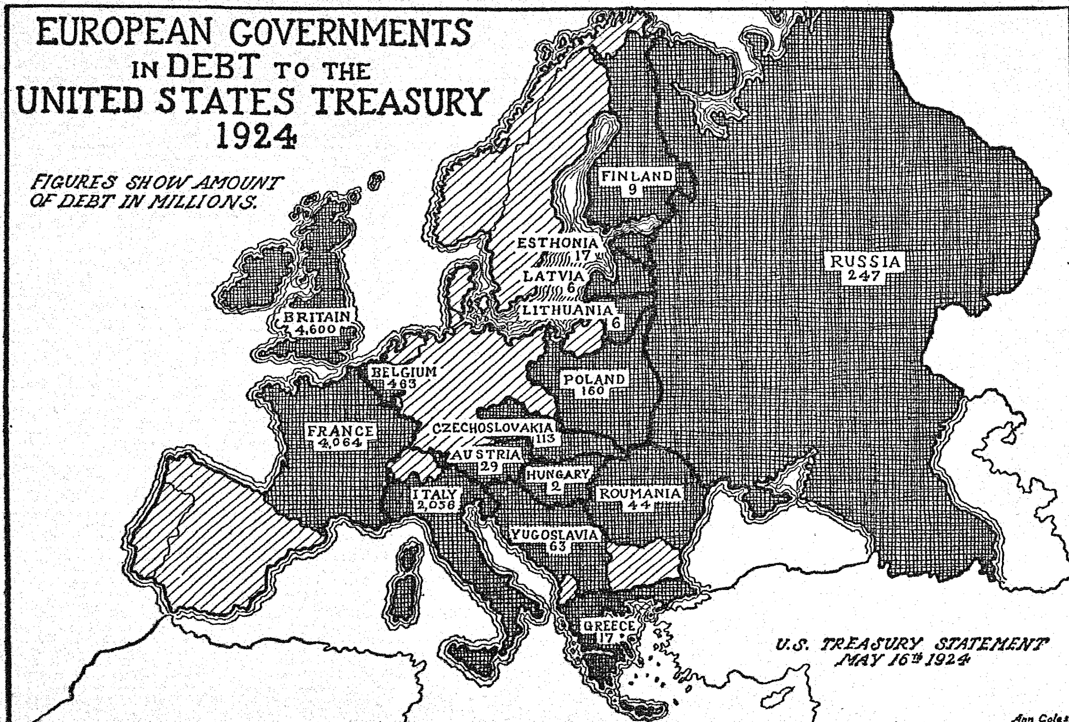
Briefly that reality may be formulated into a number of quite obvious axioms or principles upon which the Versailles Treaty, the Treaty of Sèvres and the Dawes Plan were founded:

1. In the case of an enemy defeated in war, some combination of the following practices will be resorted to:

   a. Political dismemberment, as in the case of Austria-Hungary and Turkey.
   b. Or economic dismemberment, as in the case of Germany.
   c. This dismemberment will be carried to the point of economic ruin unless that ruin will also involve the victor nation. In that case,
   d. Indemnities and penalties will be imposed which must be paid over a long series of years, and which will be designed to transfer the surplus of the vanquished nation to the rulers of the victor state.
   e. The collection of this tribute will be made possible by attaching the income of the defeated nation and mortgaging its industrial properties.

2. Automatically, under these rules, the nation with the greatest economic reserves, and which is not defeated in war, will speedily have the whole world, ally as well as enemy, paying tribute into its coffers.

It must be perfectly obvious that the methods heretofore applied by capitalist empires to the exploitation of weaker nations will hereafter be applied to the exploitation of defeated rivals. The principles that have governed the internal affairs of capitalist empires in the past are now being introduced into the world struggle. As to the soundness of these principles, we are not here passing judgment. Their import is to place large sections of the world's populations in a position where they must pay regular tribute to the world's conquering and dominant nationalist groups.


EUROPEAN GOVERNMENTS
IN DEBT TO THE
UNITED STATES TREASURY
1924
FIGURES SHOW AMOUNT
OF DEBT IN MILLIONS.
FINLAND 9
ESTHONIA 17
LATVIA 6
LITHUANIA 6
RUSSIA 247
BRITAIN 4,600
BELGIUM 463
POLAND 160
FRANCE 4,064
CZECHOSLOVAKIA 113
AUSTRIA 29
HUNGARY 2
ROUMANIA 44
ITALY 2,056
YUGOSLAVIA 63
GREECE 17
U.S. TREASURY STATEMENT
MAY 16th 1924
Ann Coles.