

THE REVISION OF THE REPARATION CLAUSES OF THE TREATY OF VERSAILLES
AND THE CANCELLATION OF INTER-ALLIED INDEBTEDNESS

The Earl of Balfour, Acting British Secretary of State for Foreign Affairs, in a note respecting war debts sent to the diplomatic representatives at London of France, Italy, the Serb-Croat-Slovene State, Roumania, Portugal and Greece, on August 1, 1922, requested those governments to make arrangements for dealing to the best of their ability with the loans owing by them to the British Government. He took occasion to explain, however, that the amount of interest and repayment, for which the British Government asks, depends not so much on what the debtor nations owe Great Britain as on what Great Britain has to pay America. "The policy favored by His Majesty is", says the Earl of Balfour, "that of surrendering their share of German reparation, and writing off, through one great transaction, the whole body of inter-Allied indebtedness." But such a policy, he states, is difficult of accomplishment because, "with the most perfect courtesy, and in the exercise of their undoubted rights, the American Government have required this country to pay the interest accrued since 1919 on the Anglo-American debt, to convert it from an unfunded to a funded debt, and to repay it by a sinking fund in twenty-five years. Such a procedure is clearly in accordance with the original contract. His Majesty's Government make no complaint of it; they recognise their obligations and are prepared to fulfil them. But evidently they cannot do so without profoundly modifying the course which, in different circumstances, they would have wished to pursue. They cannot treat the repayment of the Anglo-American loan as if it were an isolated incident in which only the United States of America and Great Britain had any concern. It is but one of a connected series of transactions, in which this country appears sometimes as debtor, sometimes as creditor, and, if our undoubted obligations as a debtor are to be enforced, our not less undoubted rights as a creditor cannot be left wholly in abeyance".¹

The requirement of the American Government, referred to by the Earl of Balfour, is contained in the Act of Congress, approved February 9, 1922, "To create a commission authorized under certain conditions to refund or convert obligations of foreign Governments held by the United States of America." This commission, consisting of five members and known as the "World War Foreign Debt Commission" is, by the law, authorized, subject to the approval of the President, "to refund or convert, and to extend the time of payment of the principal or the interest, or both, of any obligation of any foreign Government now held by the United States of America, . . . arising out of the World War, into bonds or other obligations of such foreign Government in substitution for the bonds or other obligations of such

¹ The note has been printed and published as a British Parliamentary Command Paper, No. 1737 (Miscellaneous No. 5, 1922).

Government now or hereafter held by the United States of America, in such form and of such terms, conditions, date or dates of maturity, and rate or rates of interest, and with such security, if any, as shall be deemed for the best interests of the United States of America." A proviso limits the authority of the commission to extend the time of maturity of such bonds or other obligations beyond June 15, 1947, which is the last date of maturity of the war bonds subscribed by the American people from the proceeds of which these foreign loans were made, or to fix the rate of interest at less than $4\frac{1}{4}$ per centum per annum. The authority granted by the Act ceases at the end of three years and Section 3 expressly stipulates "That this Act shall not be construed to authorize the exchange of bonds or other obligations of any foreign Government for those of any other foreign Government, or cancellation of any part of such indebtedness except through payment thereof."²

In view of the previous history of proposals which sought to involve the Allied debt to America with the subject of the payment of war costs and reparations, and the categorical refusal of American representatives to consider them, the note of the Earl of Balfour of August 1, 1922, may be regarded as in the nature of a protest against this policy of the United States Government finally formulated and adopted in the Act of Congress of February 9, 1922.

It will be observed in the British note of August 1, 1922, that a revision of the reparation clauses is given as an inducement for the United States to cancel the war debts. In addition, certain reasons are given to justify the protest against the Act of Congress. The Earl of Balfour states that the Allies "were partners in the greatest international effort ever made in the cause of freedom; and they are still partners in dealing with some, at least, of its results. Their debts were incurred, their loans were made, not for the separate advantage of particular States, but for a great purpose common to them all, and that purpose has been, in the main, accomplished". Furthermore, he asserts that, among the many economic ills from which the world is suffering, "must certainly be reckoned the weight of international indebtedness, with all its unhappy effects upon credit and exchange, upon national production and international trade". And, he asks, "How can the normal be reached while conditions so abnormal are permitted to prevail?"

In order to make clear the full meaning, so far as America is concerned, of the British proposal of "writing off, through one great transaction, the whole body of inter-Allied indebtedness", it should be understood that America owes no debts that can be written off in return for a writing off of the debts owing to her, and the net result to America of the "one great transaction" would be the outright cancellation, without consideration, of the inter-Allied indebtedness to the United States, amounting in round numbers to \$10,000,000,000.

In the absence of the United States as a party to the Treaty of Versailles

² Public No. 139, 67th Congress.

and of American claims seriously affected by the reparation clauses of that treaty, one would naturally infer from the British protest that the United States was in some way responsible for the clauses which it is proposed to revise downwards if America will pay the price. The published accounts of the discussions leading up to the adoption of the reparation clauses of the treaty show that such is not the case. On the contrary, they show that these provisions were adopted in the face of the vigorous opposition of the American delegation. "The President and his financial advisers", writes Mr. Bernard M. Baruch, a principal American member of the Commission on Reparation of the Peace Conference, "passed days and weeks vainly endeavoring to convince their colleagues in the Allied and Associated Governments that it was impossible for Germany to pay anything like the sums required under the categories. They further submitted that even if this were possible, the Allied Governments could not afford, and would in time recognize that it was not to their advantage, to exact payments that could be made only at the expense of their own trade. Therefore, in the American view it was to the interest of the Allied and Associated Governments to fix a reasonable, definite amount that Germany could pay and that they could afford to have her pay."³

The same authority has supplied the verbatim text of a memorandum of the American delegation in support of its contention for the fixation of a definite sum of reparations. The memorandum gives the two principal arguments against that course as follows:

(a) It is impossible to tell today just how much Germany might be able to pay within the next generation. A miscalculation might release Germany, at heavy cost to the Allies, from a just liability which, it would subsequently develop, Germany was fully capable of discharging. Germany's liability should, therefore, be expressed elastically, so as to insure the utilization of Germany's full future capacity of payment to make good the almost unlimited damage caused by her.

(b) The political situation among the Allies is so unsettled, and the popular expectation of relief by payments from Germany runs so high, that it might have serious political consequences to name definitely Germany's liability. Even the highest figure which has been considered would disappoint popular expectations.⁴

The answer of the American delegation to these arguments is given in the same memorandum as follows:

With respect to the latter argument, it may be observed that the financial and economic situation of Europe is so serious that no government would adopt, merely as a matter of domestic politics, a policy which is not defensible on its merits. The only political consequences to be taken into account are those relating to the stability of govern-

³ *The Making of the Reparation and Economic Sections of the Treaty*, New York: Harper and Brothers, 1920, p. 52.

⁴ *Ibid.*, p. 67.

ment in general. It is conceivable that a severe popular disillusionment at this time might lead to social unrest, which would have really serious national and international consequences. It seems far more probable that to continue to perpetuate uncertainty as to the amount of Germany's payments will merely postpone an awakening until a time when the situation may be even more critical. In the intervening period the people will not have exerted their fullest efforts to aid themselves, as would have been the case had they earlier realized their real situation.

With regard to the argument that there is danger today of underestimating Germany's capacity to pay, it may be said that this risk is perfectly real and fully recognized. It is, however, a risk which must be balanced against the risk of attempting to secure from Germany more than she can pay, or adopting a procedure which destroys Germany's incentive to pay. Of the two risks the latter is infinitely the more serious. To seek too much jeopardizes the whole; to obtain too little involves only the loss of the difference between what is, and what might have been, paid.

It is further to be observed that what the world requires, and requires immediately, is a new basis of credit. A dollar today is probably worth two dollars five years from now. A definite obligation assumed by Germany, under conditions which warrant us in believing that Germany herself has the will and believes she has capacity to discharge such obligation, will serve as an immediate basis of credit. A far larger amount assumed under equally satisfactory conditions eighteen months from now would not begin to have the same practical value. Also a larger amount imposed today at the point of the bayonet and in the face of declarations by Germany (which will be accepted by conservative persons throughout the world) that the sum is far in excess of her capacity, would prove of little or no value as a basis of credit.⁵

The American memorandum contains the following criticism of the reparation plan then under consideration and finally adopted by the Allies:

The present reparation plan is, in our opinion, open to the serious objection that it may, in practice, operate to destroy economic incentive on the part of the present generation in Germany. Germany is set a task without end, and the more she labors the more will be taken from her. Furthermore, little is obtainable under the plan in the immediate future, aside from the deliveries of bonds, which will not command the confidence of investors because, among other things, they may be followed by an indefinite amount of similar bonds. And it will be in the interests of Germany herself to destroy popular confidence in the initial installments of bonds taken from her, as once these bonds acquire any marketable value, still further issues will be taken from Germany.

Europe's need is immediate. Any substantial delay in securing from Germany an obligation having a substantial present value may involve consequences which will approach a disaster. The risks involved in delay far outweigh the difference between such definite sum as might be fixed today and the most optimistic estimates which have been made as to Germany's capacity.⁶

⁵ *The Making of the Reparation and Economic Sections of the Treaty*, pp. 67-68. ⁶ *Ibid.*, pp. 68-69.

The view which gave primary consideration to the exigencies of British and French internal politics prevailed over the dictates of farseeing statesmanship, and now, over three years after the signature of the treaty, the question of reparations appears to be as far from settlement as it was then, Europe in the meantime suffering the evils of the policy of opportunism so clearly foreseen and definitely pointed out by the American delegation to the Peace Conference. Under the circumstances, is it reasonable to expect America to forego the payment of a sum, the lending of which added two-fifths to the national debt, in order to induce the Allies to pursue now a policy urged upon them by American representatives at the Peace Conference and which, as demonstrated by subsequent events, they should have then adopted in their own self-interest? ⁷

The argument repeated by the Earl of Balfour that America was a partner in the prosecution of the war and is consequently responsible for a full share of the partnership liabilities dates back also to the Peace Conference. Mr. Baruch points out that during the discussion of the amount of German reparations, the following intimation was conveyed to the American delegation:

If you ask us to lessen our claims upon Germany for indemnity, which she admits she owes, what will you do for the loan made to us for the prosecution of a war which was as much your war as our war, the amount of which clearly exceeds our ability to pay unless we are allowed to get the last possible dollar out of Germany? ⁸

Mr. Baruch explains that "of course, it was generally recognized that the indebtedness of the Allies to the United States had no relation to Germany's reparation obligations to the Allies", that "the United States, relatively speaking, had no great direct interest in what Germany was to pay, but she had a sincere desire for all nations concerned that the world should not be thrown into disorder and its commerce deranged by an attempt to create and collect a debt which could not be paid", but that "the most that the

⁷ In this connection see the article on "Reparations" by Mr. Thomas W. Lamont, one of the American financial representatives at the Peace Conference, in the volume entitled *What really happened at Paris*, New York, Charles Scribners Sons, 1921. In discussing "The Power of Clemenceau and Lloyd George", Mr. Lamont says:

"It sounds absolutely unwarranted for me to place my opinion against those of two chiefs of state like Clemenceau and Lloyd George; yet I am convinced, as I was at the time, that they were wrong, that they entirely misread their own constituencies when they believed that if they adopted the business course of fixing the German indemnity and proceeding to collect it they would, because of the disappointment of their voters, be turned out of office. . . . All I feel is, if at this critical juncture both M. Clemenceau and Mr. Lloyd George had had a little more confidence in their own strength they would have joined with President Wilson and settled this question of German indemnity once for all, thus avoiding, to a considerable measure, the terrible consequences of continued unsettlement that have plagued Europe and the whole world since the Peace Conference adjourned and left the German indemnity question open." (pp. 265, 268).

⁸ *The Making of the Reparation and Economic Sections of the Treaty*, p. 52.

American delegation could do was to urge upon its associates, in their own and in the whole world's interest, the necessity and practical wisdom of fixing Germany's liability. When, however, they were not persuaded, the American delegation felt that it had done all that it properly could do in the circumstances. To have adopted any other course and to have insisted as a matter of right that creditors of Germany should waive in part their admittedly just claims against Germany might have encouraged the effort to reopen the whole question of Interallied indebtedness and refinancing".⁹

It will be interesting at this point to refer to some of the plans brought forward during the Peace Conference which involved American participation in the payment of the European costs of the war and reparations. Mr. Baruch refers to a proposal brought forward

to the effect that bonds for part of the reparations to the value of £1,800,000,000 (\$9,000,000,000) as from January 1, 1925 (the date from which they bear interest), should be issued by enemy states or by certain states acquiring enemy territory. The proposition further provided that these bonds should be guaranteed by the principal Allied and Associated Governments, by the three Scandinavian Governments, and by the Governments of Holland and Switzerland.

It was proposed under this scheme that the United States should guarantee 20 per cent of the issue. In the event of any of the guarantor Governments failing to meet their guarantees, the remaining guarantor Governments might be obligated to double their original proportionate share. That might have made it necessary for the United States to guarantee 40 per cent, or about \$3,450,000,000. No serious consideration was ever given to this plan.¹⁰

The origin of the proposal is not disclosed, but, since it is stated in pounds sterling, it was probably of British origin. Other schemes having the same object in view, presumably French in origin, have been brought to light by M. André Tardieu, one of the leading French representatives at the Peace Conference. He says:

Besides the guarantees of payment taken directly from Germany, right and reason suggested others based upon the unity existing among the Allies. After unity in war, unity in peace. Could not sacrifices borne in common include, after the losses in lives and property, the costs of settlement—the richest helping the less rich to bear their share of the burden? ¹¹

This burden he places at 700,000 millions as the cost of victory, the repayment of which was not demanded by the treaty, and the possible non-payment by Germany of all or part of the reparations debt which she was called upon to pay. He states frankly however: "Now, let us make no mistake about this. Stripped of its disguise of words and transformed into plain figures, the idea of financial unity, as regards the settlement of the cost

⁹ *The Making of the Reparation and Economic Sections of the Treaty*, pp. 53, 55, 71.

¹⁰ *Ibid.*, pp. 71-72.

¹¹ *The Truth about the Treaty*, Indianapolis, the Bobbs-Merrill Co., 1921, p. 336.

of the war, had but one meaning—an appeal to the American Treasury with a view to its acceptance of additional liability”.¹²

The details of two such plans are supplied by him as follows:

We studied a plan to lump the costs, whatever they might be, of the war in one sum, basing responsibility on the population and national wealth of each country. This scheme would have reduced France's war debt from 30.2 per cent to 11.4 per cent; that of Great Britain, 31.1 per cent to 20.2 per cent; that of Belgium, from 5.4 per cent to 1.7 per cent; that of Serbia from 4.6 per cent to 0.8 per cent. On the contrary it would have increased the United States obligations 29 per cent, that of Japan 6 per cent, that of Italy 6 per cent, that of Canada 1 per cent, that of the Union of South Africa 1.4 per cent, etc. This percentage increase represented in round numbers 250,000,000,000 francs for the United States, 65,000,000,000 for Japan, 9,000,000,000 for Canada, 12,000,000,000 for the Union of South Africa”.

“The simple statement of these figures”, he adds, “provoked absolute protest from those countries whose debts were to be so increased”. The same fate, he informs us, attended another scheme, “which was equally officially submitted to the Allied delegations and which used as a basis for the share in the war debts the war dead of the several countries, as compared with the total population of the Allies. . . . The adoption of this calculation would have reduced the debt of France by about 30,000,000,000 francs”. But, he again laments, in every case, “no matter what was the method applied to the solution of financial unity, those who were called upon to pay for the others or to pledge themselves for others affirmed the doctrine of financial autonomy so jealously safeguarded during the war”.¹³

Whenever American officials were approached on the subject of the cancellation of the Allied debts to the United States, the record shows that their answers have been uniformly and firmly in the negative, and that they have disavowed the insinuations of the Allies that the United States is responsible, on the principle of partnership or otherwise, for any nation's war debts other than its own.

Apropos of the attempted discussions of the subject at the Peace Conference, Mr. Rathbone, Assistant Secretary of the United States Treasury, on March 8, 1919, wrote to M. de Billy, the French High Commissioner at Washington, as follows:

I wish to clearly inform you that the Treasury Department of the United States, which, as you know, has absolute authority, conferred by Congress, in the matter of loans allowed by it to foreign governments, will not consent to any discussion, at the peace conference or elsewhere, of a plan or project having for object the liberation, the consolidation, or new division of the obligations of foreign governments held by the United States.¹⁴

¹² Tardieu, *The Truth about the Treaty*, p. 340.

¹³ Translation of an article appearing in *L'Illustration* of October 20, 1920, quoted in Senate Document, No. 86, 67th Cong., 2d sess. p. 264.

¹⁴ *Ibid.*, p. 264; Tardieu, *ibid.*, p. 341.

When the question of the conversion into the form of long term bonds of the demand and short-term obligations of the British and Allied Governments held by the United States Treasury was taken up in the latter part of 1919, the British Chancellor of the Exchequer took advantage of the opportunity again to bring up the subject of the cancellation of the debts to America. Mr. Rathbone, to whom this suggestion was made and who was then in Paris, replied on November 18, 1919 as follows:

The United States Treasury has in no wise changed the views it has expressed, or modified the position that it has taken in the past, and regards the several obligations of the various Allied Governments held by the Government of the United States as representing the debt of each to the United States. . . .

The United States Treasury has never accepted the principle that a payment by Great Britain on account of her indebtedness to the United States required the receipt by Great Britain of a similar amount from the Allied Governments indebted to Great Britain. On the contrary, the United States Treasury has always taken the position that the question of the British debt to the United States was a question between these two Governments alone.¹⁵

In the course of the same negotiations, in February, 1920, the Chancellor of the Exchequer sent a message through the British Embassy in effect inviting the American Treasury to the consideration of a general cancellation of intergovernmental war debts. A reply to this message was sent under date of March 19, 1920 by the Honorable David F. Houston, then Secretary of the Treasury. Mr. Houston's letter not only declined to accept the invitation, but gave cogent reasons which apply with equal force to the arguments now raised in the British note of August 1, 1922. Mr. Houston's letter of March 19 will therefore be quoted *in extenso* as containing a full statement of the American Government's attitude on the subject:

As to the general cancellation of intergovernmental war debts suggested by you, you will, I am sure, desire that I present my views no less frankly than you have presented yours. Any proposal or movement of such character would, I am confident, serve no useful purpose. On the contrary, it would, I fear, mislead the people of the debtor countries as to the justice and efficacy of such a plan and arouse hopes, the disappointment of which could only have a harmful effect. I feel certain that neither the American people nor our Congress, whose action on such a question would be required, is prepared to look with favor upon such a proposal.

Apparently there are those who have been laboring for some time under the delusion that the inevitable consequences of war can be avoided. As far back as January a year ago, before it could possibly be foreseen whether any measures were necessary other than the adoption of sound economic policies, various schemes including that of a cancellation of intergovernmental war debts, were launched. Of course, I

¹⁵ Senate Document No. 86, 67th Cong., 2d sess., pp. 63 and 65.

recognize that a general cancellation of such debts would be of advantage to Great Britain and that it probably would not involve any losses on her part. As there are no obligations of the United States Government which would be cancelled under such a plan, the effect would be that in consideration of a cancellation by the United States Government of the obligations which it holds for advances made to the British Government and the other allied Governments the British Government would cancel its debts against France, Italy, Russia, and her other allies. Such a proposal does not involve mutual sacrifices on the part of the nations concerned. It simply involves a contribution mainly by the United States. The United States has shown its desire to assist Europe. Negotiations for funding the principal of the foreign obligations held by the United States Treasury and for postponing or funding the interest accruing during the reconstruction period are in progress. Since the armistice this Government has extended to foreign Governments financial assistance to the extent of approximately \$4,000,000,000. What this Government could do for the immediate relief of the debtor countries has been done. Their need now is for private credits. The indebtedness of the allied Governments to each other and to the United States is not a present burden upon the debtor Governments, since they are not paying interest or even, as far as I am aware, providing in their budgets or taxes for the payment of their principal or interest. At the present time the foreign obligations held by the Government of the United States do not constitute a practical obstacle to obtaining credits here, and I do not think that the European countries would obtain a dollar additional credit as a result of the cancellation of those obligations. The proposal does not touch matters out of which the present financial and economic difficulties of Europe chiefly grow. The relief from present ills, in so far as it can be obtained, is primarily within the control of the debtor Governments and peoples themselves. Most of the debtor Governments have not levied taxes sufficient to enable them to balance their budgets, nor have they taken any energetic and adequate measures to reduce their expenditures to meet their income. Too little progress has been made in disarmament. No appreciable progress has been made in deflating excessive issues of currency or in stabilizing the currencies at new levels, but in Continental Europe there has been a constant increase in note issues. Private initiative has not been restored. Unnecessary and unwise economic barriers still exist. Instead of setting trade and commerce free by appropriate steps there appear to be concerted efforts to obtain from the most needy discriminatory advantages and exclusive concessions. There is not yet apparent any disposition on the part of Europe to make a prompt and reasonable definite settlement of the reparation claims against Germany or to adopt policies which will set Germany and Austria free to make their necessary contribution to the economic rehabilitation of Europe.

After taking all the measures within their power one or more of the debtor Governments may ultimately consider it necessary or advantageous to make some general settlement of their indebtedness. In such a case they would, I presume, propose to all creditors, domestic and foreign, a general composition which would take into account advantages obtained by such debtor country under the treaty of peace. How the American people or the American Congress would view partici-

pation in such a composition I can not say. It is very clear to me, however, that a general cancellation of intergovernmental war debts, irrespective of the positions of the separate debtor Governments, is of no present advantage or necessity. A general cancellation as suggested would, while retaining the domestic obligations intact, throw upon the people of this country the exclusive burden of meeting the interest and of ultimately extinguishing the principal of our loans to the allied Governments. This nation has neither sought nor received substantial benefits from the war. On the other hand, the Allies, although having suffered greatly in loss of lives and property, have under the terms of the treaty of peace and otherwise, acquired very considerable accessions of territories, populations, economic and other advantages. It would therefore seem that if a full account were taken of these and of the whole situation, there would be no desire nor reason to call upon the Government of this country for further contributions.¹⁶

So far as known, no reply to the foregoing letter has been published, nor are Mr. Houston's reasons for declining to consider the proposal of the Chancellor of the Exchequer covered by the note sent on August 1, 1922 by the Acting British Secretary of State for Foreign Affairs to the debtor governments. In that note the Earl of Balfour makes a pretense to generosity in the offer of general cancellation which Secretary Houston's letter denies. In it also the British Government officially circulates a general assumption as to the effect of the inter-Allied indebtedness upon the economic situation in Europe which is not shared by the American Secretary of the Treasury.

The Treaty of Versailles went into effect on January 10, 1920, and almost immediately thereafter the British and French Governments began to discuss the question of giving fixity and definiteness to Germany's reparation obligations, which had already consumed so much time at the Peace Conference and which had been decided adversely for the reasons previously given. On August 5, 1920, we find the British Prime Minister writing to President Wilson in regard to these Franco-British discussions and proposing an "all around settlement of inter-Allied indebtedness". In view of what had already taken place at the Peace Conference, Mr. Lloyd George's letter to President Wilson of August 5, 1920 deserves quotation on this subject. He said:

The British and the French Governments have been discussing during the last four months the question of giving fixity and definiteness to Germany's reparation obligations. The British Government has stood steadily by the view that it was vital that Germany's liabilities should be fixed at a figure which it was within the reasonable capacity of Germany to pay, and that this figure should be fixed without delay, because the reconstruction of Central Europe could not begin nor could the Allies themselves raise money on the strength of Germany's obligation to pay them reparation until her liabilities had been exactly defined. After great difficulties with his own people, M. Millerand

¹⁶ *Congressional Record*, July 18, 1921, Vol. 61, Part 4, p. 3951.

found himself able to accept this view—but he pointed out that it was impossible for France to agree to accept nothing less than it was entitled to under the treaty, unless its debts to its allies and associates in the war were treated in the same way.

This declaration appeared to the British Government eminently fair. But after careful consideration they came to the conclusion that it was impossible to remit any part of what was owed to them by France except as part and parcel of all around settlement of interallied indebtedness. I need not go into the reasons which led to this conclusion, which must be clear to you. But the principal reason was that British public opinion would never support a one-sided arrangement at its sole expense, and that if such a one-sided arrangement were made it could *not fail to estrange and eventually embitter the relations between the American and British people, with calamitous results to the future of the world.*¹⁷

It will be observed that Mr. Lloyd George, keen to detect one-sidedness in the Millerand proposal as affecting Great Britain, apparently was unable to see any one-sidedness in his own proposal to President Wilson as it affected the United States. Not so, however, with President Wilson, for in October, 1920 he sent an answer to the British Prime Minister which ought to have set at rest once and for all the agitation of the subject. Mr. Wilson replied:

It is highly improbable that either the Congress or popular opinion in this country will ever permit a cancellation of any part of the debt of the British Government to the United States in order to induce the British Government to remit, in whole or in part, the debt to Great Britain of France or any other of the allied Governments or that it would consent to a cancellation or reduction in the debts of any of the allied Governments as an inducement toward a practical settlement of the reparation claims. As a matter of fact, such a settlement, in our judgment, would in itself increase the ultimate financial strength of the Allies.

You will recall that suggestions looking to the cancellation or exchange of the indebtedness of Great Britain to the United States were made to me when I was in Paris. Like suggestions were again made by the chancellor of the exchequer in the early part of the present year. The United States Government by its duly authorized representatives has promptly and clearly stated its unwillingness to accept such suggestions each time they have been made and has pointed out in detail the considerations which caused its decision. The view of the United States Government has not changed, and it is not prepared to consent to the remission of any part of the debt of Great Britain to the United States. Any arrangements the British Government may make with regard to the debt owed to it by France or by the other allied Governments should be made in the light of the position now and heretofore taken by the United States, and the United States in making any arrangements with other allied Governments regarding their indebtedness to the United States (and none are now contemplated beyond the funding of indebtedness and the postponement of the payment of interest)

¹⁷ Senate Document No. 86, 67th Cong., 2d sess., p. 83.

will do so with the confident expectation of the payment in due course of the debt owed the United States by Great Britain. It is felt that the funding of these demand obligations of the British Government will do more to strengthen the friendly relations between America and Great Britain than would any other course of dealing with the same.

The United States Government entirely agrees with the British Government that the fixing of Germany's reparation obligation is a cardinal necessity for the renewal of the economic life of Europe and would prove to be most helpful in the interests of peace throughout the world; however, it fails to perceive the logic in a suggestion in effect either that the United States shall pay part of Germany's reparation obligation or that it shall make a gratuity to the allied Governments to induce them to fix such obligation at an amount within Germany's capacity to pay. This Government has endeavored heretofore in a most friendly spirit to make it clear that it can not consent to connect the reparation question with that of intergovernmental indebtedness.¹⁸

It was in the light of the record above set forth that the Act of Congress of February 9, 1922 was adopted. Hearings were held by the Senate and House Committees before the bill was reported out favorably. Treasury officials were the chief witnesses and they produced voluminous records from the Treasury Department covering the discussions between the governments from the beginning. No voice was raised either in the Senate or in the House of Representatives in favor of the cancellation in whole or in part of the Allied indebtedness to the United States. The debate on the bill was directed principally to amendments to make sure that the Act would not place in the hands of the Executive, authority to transfer the German reparation debt to the United States by the acceptance of German bonds in exchange for Allied indebtedness,¹⁹ and to leave no loop-hole in the law under which the Executive might entertain suggestions for the cancellation of the Allied debt.

Immediately upon the publication of the Balfour note, Mr. Mellon, the present Secretary of the United States Treasury, issued a statement in which he quoted the following from a memorandum handed to the British Ambassador in June, 1920:

It has been at all times the view of the United States Treasury that questions regarding the indebtedness of the Government of the United Kingdom of Great Britain and Ireland to the United States Government and the funding of such indebtedness had no relation either to questions arising concerning the war loans of the United States and of the United Kingdom to other governments or to questions regarding the reparation payments of the Central Empires of Europe. These views

¹⁸ *Congressional Record*, July 18, 1921, Vol. 61, Part 4, pp. 3951-52.

¹⁹ See the agreement made with Belgium on June 16, 1919 by the British and French Premiers and President Wilson, in which they undertake to recommend to their respective governmental agencies the acceptance of German reparation bonds in satisfaction of the sums borrowed by Belgium from the Allied Governments, printed in the SUPPLEMENT to this JOURNAL, p. 190.

were expressed to the representatives of the British Treasury constantly during the period when the United States Government was making loans to the Government of the United Kingdom and since that time in Washington, in Paris and in London.

At the same time Mr. Mellon denied Lord Balfour's statement that the United States Government virtually insisted upon a guarantee by the British Government of amounts advanced to the other Allies. "Instead of insisting upon a guarantee or any transaction of that nature", says Secretary Mellon's statement, "the United States Government took the position that it would make advances to each government to cover the purchases made by that government and would not require any government to give obligations for advances made to cover the purchases of any other government. Thus the advances to the British Government, evidenced by its obligations, were made to cover its own purchases, and advances were made to the other Allies to cover their purchases".

From the foregoing it appears that the proposal that America should cancel the Allied debts owing to her originated before the policy with reference to the German reparation was adopted and that the reparation clauses were inserted in the treaty with the explicit knowledge that the United States was not disposed to consider the subject of the cancellation of the debts. The subsequent attempt to entangle the question of the revision of the German reparation clauses with the payment of the inter-Allied debt should be viewed in the light of those facts. If the Allies deliberately persisted in their impracticable reparation policy with the hope of later substituting American responsibility for German irresponsibility, President Wilson's categorical refusal to entertain Premier Lloyd George's subsequent proposal to that effect should have disillusioned them.

The so-called partnership arrangement between the Allied and Associated Powers in the matter of liability for the costs of the war is completely negated, so far as the United States is concerned, by the terms of the laws which authorized the loans and by the repeated statements to the contrary of the Treasury officials who lent the money and were cognizant of the conditions of the respective loans. As between the principal Allies themselves, the existence of a series of separate debts owing from one to another makes it difficult to accept the thesis now advanced that these loans were considered as joint contributions to a common cause. If so, why the carrying of these separate interest-bearing accounts of each so-called partner instead of lumping the alleged partnership contributions in one common fund to be used for common purposes?

The economic effects of the outstanding inter-Allied debts may be open to question, but surely their cancellation ought to be considered only as a last resort. The persistent urging and agitation of that drastic course before other remedies for the economic situation suggested by the creditor government have been tried is, to say the least, premature and out of place.

It is worth while to note that two of the principal representatives of the United States on the Commission on Reparation of the Peace Conference have since expressed themselves in opposition to the proposal to cancel the Allied debts to the United States. These gentlemen are Mr. Bernard M. Baruch, Chairman of the United States War Industries Board during the war, and Mr. Norman H. Davis, American Commissioner of Finance during the war. Both spent months in Europe studying the reparation problem. When, later, Mr. Davis, as Under-Secretary of State, transmitted to President Wilson the request of the British Chancellor of the Exchequer for the consideration of the question of cancellation, he accompanied it with a brief memorandum containing the following comment:

Just as the people of Europe were misled into believing German reparations would supply the deficit in budgets, they are being misled into believing a cancellation of the external governmental debts will later solve their other difficulties. While the Allies have never bluntly so stated, their policy seems to be to make Germany indemnify them for having started the war and to make us indemnify them for not having entered the war sooner.²⁰

Mr. Baruch has deemed it appropriate to give public expression to his views in regard to the so-called Balfour note of August 1, 1922, in a letter addressed to Senator William E. Borah, under date of September 12, 1922, as follows:

That note is the presentation of the opinion of a certain school in England that contends that the German reparation can not be reduced unless all interallied indebtedness is canceled or reduced, and that the interallied indebtedness should be canceled on the ground that the war was a common cause, and that each country gave what it could in men and treasure.

The Balfour note listed among the claims that England had, and which it would reduce or cancel if America canceled the indebtedness of the Allies to her, a claim of £1,300,000,000 for German reparation.

If the purpose of the note was to secure America's coming in on the same basis as England it might have been well to have eliminated entirely England's claims against Germany, which are based almost entirely upon pensions and separation allowances, because America has put in no such claim.

The moving cause, as I understand it, for our not demanding a share of the German reparation was in order to permit the devastated countries—France, Belgium, Italy, and others—to have what the Germans could pay.

So far as the allied debts are concerned, there are several ways of looking at them.

There are those who say they should be canceled because they can not be paid, and there are those who, like Mr. Balfour, say they should be canceled because they were incurred in a common cause.

²⁰ Memorandum to the President, February 21, 1920, printed in Senate Document No. 86, 67th Cong. 2d sess., p. 77.

The first of these apparently considers the matter from a purely commercial standpoint. What do the advocates of cancellation mean when they say that the Allies can not pay? Do they mean that these countries can not pay all or that they can not pay a part? Surely all of the great countries who are now our debtors can pay something if given time. And I am sure that countries like England, if we insist, can and will pay all, no matter what the cost may be. From a business standpoint it is going to be exceedingly difficult to convince the American people, who, after all, are the final arbiters in this matter, that if Germany can pay \$10,000,000,000, which all thoughtful people think she can pay if given time and opportunity, the Allies can not pay the amounts due us. Money is not the only method of payment. It is through the exchange of things that nations will pay one another as most individuals pay one another. But the nations of the world can not make things with which to pay unless they get down to work.

Now, as to the Balfour point of view:

Whatever may be the opinions of others, including myself, on the subject, the American people, as a whole, decided that the war was not theirs until we entered it; and the international community of interest and purpose must be viewed as dating from our entrance into the war. Then we must consider what portion of our advances was truly for common objectives.

The records of the Allied Purchasing Commission and the Treasury Department will show for what the various sums of money borrowed by England or any other nation were spent. Whereas it might be convincingly contended that the money spent for purchase of munitions (because we had not enough soldiers ready to use them, and because England and the other Allies were able to use them to better advantage in the quicker winning of the war), could be called a contribution to a common cause, yet the same decision could not be arrived at regarding certain other important expenditures.

Surely money that was spent for things that went into the making of shipping which became a permanent part of the mercantile fleet of England, or money that was used for the purchase of such material as went for commercial purposes or to bolster exchange—in most instances this was to facilitate purchases in other countries—or to pay for loans or materials obtained previously to our entering the war, if there were such, can by no conceivable reasons be considered a contribution to a common cause, and therefore should not be canceled.

The same applies in instances where food was bought for England's civilian population, not for her soldiers, and was paid for by that population. It must be remembered that the English Government did not give but sold to its people the food bought in this country.

On the other hand, in practically every instance where purchases were made in England by us after we entered the war they were paid for in cash and not by means of a loan by England to America. Again, America paid England for ferrying our soldiers to Europe.

Surely the expenditures mentioned above should be considered a contribution by the English in a common cause and should be set off against any amount by which England proposes that her gross debt to us should be reduced.

If this subject is treated on the basis suggested in the Balfour note, equity and justice would demand that England, whose territory was

not devastated, should relinquish her claim against Germany for the benefit of the devastated countries. Then we could count as a contribution to a common cause that which was spent for munitions and for fighting purposes in this country by England. But England, besides paying the balance due on the loan, should repay us, as a contribution to the common cause, that which we spent in her country for munitions and for shipping.

I do not make these remarks in a spirit of narrow criticism. Nor am I unmindful of the great sacrifices that the English people made so nobly and unstintingly in the World War. But I do believe that those behind the Balfour note should give full consideration to all of the facts involved in the case, and not make it appear that the United States is ungenerous in her position. We were ready and willing to have gone to the bitter end despite what the cost might have been to us. We made no bargain then for our continuance in the struggle, and we want no one to set a value upon our contribution.

In my opinion, it is useless to consider either the German reparation or the readjustment of the interallied debts by themselves, because they are but two symptoms of a disease that lies deeper. These problems should be treated as a whole so as to leave all peoples in the various countries free to go back to work under conditions that will cause them to look forward with hope and not backward with hate.²¹

The adoption in the Act of February 9, 1922 of the prohibition against cancellation of Allied indebtedness to the United States will make it impossible for the debt commission created by the Act to consider proposals for cancellation. Any further appeals to the United States for cancellation must therefore be based upon the hope of having the Act of February 9 amended in that respect. A glance at the cost to the American taxpayer involved in such an amendment will show the improbability of the success of any agitation in favor of the amendment. The portion of the war loans raised in the United States which was applied to meet in part America's cost of the war is roughly one-half of the total loans, which aggregated in round numbers \$20,000,000,000, the other half having been loaned to the Allies. For the service of the loans the Victory Liberty Loan Act established a sinking fund on July 1, 1920 and the law permanently appropriates for each fiscal year until the debt is discharged an amount equal to the sum of "2½ per centum of the aggregate amount of such bonds and notes outstanding on July 1, 1920, less an amount equal to the par amount of any obligations of foreign Governments held by the United States on July 1, 1920," plus "the interest which would have been payable during the fiscal year for which the appropriation is made on the bonds and notes purchased, redeemed, or paid out of the sinking fund during such year or in previous years."²²

It will be noted that the indebtedness incurred by the United States to make the foreign loans is not cared for by the sinking fund, as Congress

²¹ *Congressional Record*, September 13, 1922, Vol. 62, No. 231, p. 13539.

²² 40 U. S. Statutes at Large, p. 1312.

contemplated that foreign repayments would provide for that part of the debt.²³

The Treasury Department calculates that the cumulative sinking fund will retire the funded war debt of the United States, less the amount representing the foreign obligations held by the United States on July 1, 1920, in about twenty-five years.²⁴ It has been further calculated that the amounts required to meet the sinking fund and interest charges on the half of the debt applied to American war expenses will average an aggregate payment of \$685,000,000 annually for a period of twenty-five years.²⁵ As the Act of February 9, 1922 places a limitation of a similar period of twenty-five years for the repayment of the foreign debt, and as the principal and interest charges are substantially the same in both cases, it will be seen that the cancellation of the Allied debts to America will involve the payment by American taxpayers of an additional \$685,000,000 annually for a period of twenty-five years. Concretely, that is the proposition with which any American administration will be faced which undertakes to bring about an amendment of the Act of February 9, 1922, so as to authorize the cancellation of the Allied indebtedness to the United States.

GEORGE A. FINCH.

²³ See Section 3 of the First Liberty Loan Act, April 24, 1917, 40 U. S. Statutes at Large, p. 35; Section 3, Second Liberty Loan Act, September 24, 1917, *ibid.*, p. 288; and Section 7, Victory Liberty Loan Act, *ibid.*, p. 1312.

²⁴ Annual Report of the Secretary of the Treasury, 1920, p. 114.

²⁵ A paper read at a dinner of the Council of Foreign Relations in New York City, February 8, 1921 by Dr. C. E. McGuire.