

The Economic Club of New York  
62<sup>nd</sup> Meeting

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“The Balance Sheet of Europe:  
Reparations and International Debts”

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Mr. Ely: Fellow economists, it is my privilege to present the new president of our Club, Mr. William Church Osborn (Applause.)

### Introduction

Mr. William Church Osborn

Gentlemen of the Economic Club, I take my earliest opportunity of expressing my warm appreciation of the honor which you have conferred upon me.

The guest of honor tonight is one who worthily carries out an interesting tradition of the English-speaking people, namely, uniting in himself that combination of literature and of public life which has furnished some of the most glorious names on the two Continents: Mr. Albert Beveridge and Mr. Theodore Roosevelt of this country (Applause). Lord MacCaulay, Disraeli, and others too numerous to mention in England are worthily succeeded upon our platform tonight by the gentleman whom I now have the pleasure of presenting to you, Sir Gilbert Parker (applause, audience rising).

The Right Honorable Sir Gilbert Parker:

I cannot call you fellow economists, because I am not an economist. But your new President has said that I combined public life with literature. I don't know that my enemies would say in either case that I was a good combination. However, I am here to speak and I promise you

I won't speak beyond the allotted time. I cannot speak upon literacy matters because my mind is filled with something else, as yours is. I am in the presence of men who are experts in international affairs. I read Mr. Henry Morgenthau's book. I was glad to meet him tonight. It is the first time I have met him. To my mind it is the best book on the war that has been published (applause), and that is saying a great deal.

I am in the presence of other noted men who sit at the same table with me, and I don't know whether they are going to agree with what I am going to say or not. It does not make much difference. It is only by controversy that the truth can be known and told. I should be very sorry if everybody agreed with me because I have been proved wrong so often in my life that I am disposed, at last, to be modest (laughter).

You know – why did you enter the war? Not to save your own skin. You were the greatest democracy on earth. You entered the war for an international purpose, and the results of the war are just as much your concern as the concern of anyone of the Allies (applause). Believe me, if the world is poor, you eventually, in spite of your wonderful resources of raw material and food will, in the end, be poor too. You cannot live alone. You, with you resources, food and raw material, could live alone, but you don't. You trade. Trade is the bridge between all nations. We have changed our Government in England. This has to do with what I am going to say. What I would like to ask you is this: how would you like in time of peace a combination of Republicans and Democrats at Washington? There is no reply. There is no

reply about it. I was opposed to Lloyd George all my political life, but Lloyd George was the greatest Prime Minister in time of war that England has ever seen (Applause).

But I would not trust my own brother with undivided power in time of peace. When Lloyd George described Bonar Law's Government as a yawn (laughter), if I had been Bonar Law I would have said, "Your Government is a hiccup." (Laughter) And for this reason I have got a list of the Cabinet here. There are nine members of Lloyd George's ministry that are in the eighteen of Bonar Law's Cabinet—who is Bonar Law? He was born on this Continent under the British flag. Is he reactionary? I ask, am I reactionary? People who know me know I am not reactionary, and I was born on this Continent under the British flag.

As for the present government, the only man who is an intellectual flyer is Lord Curzon, the only one. But your Ambassador, Welter Hines Page, whose letters I believe will become classics (applause) in English literature, said in a letter to his son: "I observe, and the result of my observations is this, that common sense is the greatest quality in public life."

You have got in England now a common sense government. Believe me, parliamentary government has ceased in England. Let me speak frankly. When Austin Chamberlain said, "I am going to support Lloyd George and I begged my comrades of the Conservative Party to support him because we were afraid of a labor government", I said, "afraid of a labor government?" Is that a Democratic statement to make? If England wants a labor government let her have it, if the majority of the people say so."

If the United States, which has a Democratic government, wants a labor government, let her have it. That is why I wanted Lloyd George's government to disappear, and it has disappeared. You cannot kill Lloyd George. I am very sorry that Winston Churchill has been defeated, because the combination of Lloyd George and Winston Churchill as critics of a government is immense. (Laughter)

You know, trade is in a bad way. It is in a bad way in Europe. Trade does not return by any psychological process. It does not return by the gift of God. It returns by a combination of the strong in the world to help the weak in the world. It is not for me to say that you should forego your international debts. I do not say it. I do not believe in foregoing any debts. But I do believe that we owe you what gives an interest of \$35,000,000 a year. I notice that Mr. Hoover at Toledo—and believe me, there is no American in the world so much beloved by the nations of Europe as Herbert Hoover (applause)—he said, “The United States cannot forego its debts, but the United States Congress and the people of the United States will agree in the face of the proper development of Europe, on giving time”. I do not believe in the foregoing of debts. I have lent money to people very close to me. It has never been repaid (laughter) and they do not like me because of it. Neither will the nations of Europe like you if you forego your debts, but give them time (applause). I was opposed to—I am going to shock you—to woman suffrage (applause). But when woman suffrage was made the law of the land, then I said, “Stand by woman suffrage”. So I do. I do not believe in prohibition

(laughter and applause). But if the United States wants prohibition,--well, she has it (laughter). And if I were American I frankly say this, “I would stand by the law” (applause). I am going to shock you again. I do not believe in the League of Nations (applause)—without the United States in it (laughter and applause). It cannot succeed without the United States in it. Will the United States come in? That is your own business.

There is one thing I am certain of, and I am not trenching upon my subject tomorrow morning, if the United States will hold an international conference on the conditions, the financial conditions of Europe, I will abide, and there is not a Britisher alive that won't abide, by what is decided at that conference (applause). I do not flatter you when I say you are a great people. You know you are (laughter). Therefore I do not need to say it (laughter). And more than that, you are a just and a generous people. Europe does not want charity. England does not want charity. There is more owing to England than owing to you. And if England says, “Forego the debts,” it is because she is thinking of the other nations of Europe. She and you are the only nations that balanced their budgets today of the great nations of Europe, and how are they balancing their budgets?

I know by the rates of the taxes I pay. I pay eight percent to your government for every penny I earn in this country, and I remember that you won your independence by protesting against taxation without representation (laughter and applause). It is not good for me. I cannot win my independence. But I will tell you the amount of taxes and rates that I pay. When I have

paid eight percent to your government, and included it in my taxes, sixty-eight percent of my income is gone. Are you taxed like that? The British person is taxed at \$750 a year. You are taxed at \$2,400, and if there is a child born to two people, four hundred is deducted. On all the lower ranges we are taxed immensely higher than you. On the higher ranges, what does it matter? If a man has \$5,000,000 a year, he can easily forego a few of them. It is the poor man.

Reginald McKenna, the ex-British Chancellor of the British Exchequer, said here in New York, and with these words I am going to close, -- he said here in New York:

“If the broken countries of Europe are not restored, even the states still solvent will slip, one by one, into the general ruin.”

I know Reginald McKenna. Reginald McKenna is an honest man. He understands finance. General ruin? It depends on you whether there is general ruin or not. Time, time is the only thing the smaller nations ask, and time in your hands will mean—putting it on the lowest ground—more to you, because whoever buys of you is a consequence to you in the remotest part of the world (applause).



Chairman, William Church Osborn:

Ladies and gentlemen, mankind seems to have a habit of attributing very large results to very small causes. For instance, the fall of man was attributed to an apple. The Great War was attributed to Kaiser Wilhelm, and the troubles under which we are now suffering are being generally attributed to the Versailles Peace Conference whereas, as a matter of fact, the fall of man was not very far. He had fallen long before he ate the apple. And the great war was the result of a complex of spiritual wickedness and economic greed, and racial antagonisms far beyond the power of any Kaiser to strengthen or to inflame, and the troubles that we are under now are far from being the result of the Versailles Conference, and are due to the fact that they are consequent upon the greatest war in history. And the subject which we are to discuss tonight is not the results of the Versailles Conference, but it is the settlement of those great questions following upon the war as to which the Versailles Conference represents the relation that a duck pond represents to the ocean.

And there is but one other thing that I would say, and that is that over that ocean rides not the former ship of economic doctrine, but a ship upon a sea swept now and in the future by the tempestuous winds of politics. It is only when we recall those two great facts in connection with this subject that our difficulties or the difficulties sequent upon the war can be solved not alone with reference to economic truth, but as well by taking into account those infinitely

varied feelings and emotions, passions and desires that constitute the politics of the world and that their solution can be finally secured and started.

Now, the subject tonight is one, which your committee felt to be of primary and immediate importance. It is the subject which is discussed almost as frequently as prohibition where you find two or three gathered together (laughter).

In a smoker, the other day, going west, I found a variant on prohibition. There were two subjects discussed with great vehemence: religion and law. The subject is, “The Balance Sheet of Europe”, and the first speaker is one whom it would be supererogation for me to introduce to this audience, Professor A. H. Seligman, of politics and economy in Columbia University (applause).

Professor A. H. Seligman

Professor, Politics and Economy

Columbia University

Mr. Chairman, and fellow members of the Economic Club: In what sense is the present balance sheet of Europe the aftermath of war? As our Chairman has put it. Do we always recognize what is meant by that statement? We have had wars before, and we shall have wars again, but never in the history of this world has there been a war which has caused such a

devastation, such a havoc, such a destruction. In former years we had wars where people were killed and where, perhaps, cities were destroyed. But never until the advent of this epoch have we had in time of war the application of what we have long since come to know in peace as the factory system. This war was the first application in the history of the world of the factory system in warfare.

When, in addition to the loss of lives; in addition to the devastation of town and country; you fire away every second thousands and hundreds of thousands of previously accumulated capital, you cannot expect the world to be afterwards as it was before. With guns that cost well nigh a million, with men-of-war that cost \$40,000,000 or \$50,000,000, the expenditures of all previous wars, whether with bow or javelin, whether with cross-sword, or with horse, sink into insignificance. And all our troubles today arise from that fact, from this riotous and profligate waste of accumulated capital. That is the problem with which we have to deal.

It is sometimes said that nations recover quickly from wars. It is true, that after a few years the soil recovers its original or primitive fertility. It is true that in France and in Belgium, as in the other devastated countries, after the wires have been swept away and the land has been cleaned and ploughed, we may again, within a measurable time, secure our former productivity. It is true that after every Great War the birth rate, for some occult and not yet well-explained reason, increases, and before long the gap made in the population is again

filled. Those things are indeed true. But what takes time, what is not so easy to repair, is that accumulation of capital on which alone civilization rests.

Even in former times, see how long it took to get over some of the difficulties of those days. Take the thirty years' war in Germany, which it took Germany over a century to repair. Take the situation in England after the Napoleonic Wars. How long did it take England to pay the Napoleonic debt? How much did England pay off in that period of comparative prosperity after 1816? Not five percent of her debt was she able to pay in those forty years. What happened to the South after our Civil War? It took a generation before the South was again put on its feet, and all those things are like nothing compared to the situation today, where civilization itself was almost made to totter in large parts of Europe.

I marvel at the rashness of those who, in the smug complacency of our own comparative prosperity, speak so easily of the recuperative powers of Europe. Let those who have gone through the countries, whether devastated or not, who have learned to appreciate not alone the burdens which rest upon the subjects of Great Britain with the necessity, so keenly felt, of pilling in the belt tighter and tighter during the past few years, but let them go to Italy, let them go to France, let them go to Austria, let them go to any part of Europe and attempt to realize what the situation really is among the middle class, among the laboring class, among any class except those of the profiteers.

The first point then is, gentlemen, that we are dealing with unheard of conditions, with a destruction of accumulated capital which it will take long and weary years to re-establish. It is not an inviting prospect. It is not an easy task. It will take the efforts not alone of one, but the efforts of all to reconstruct a shattered world.

And that brings me to my second point, the need of other nations for ourselves. The point which the preceding speaker who, in his modest way, declared that he was not an economist, yet touched the very core, and essence of the problem. The time was when we could fairly and safely preach the policy of political isolation, because we were economically isolated, because we were self-dependent. But what was true a century or more ago is becoming daily and annually less true. Do you know that of every ten bushels of wheat, three or four are sent abroad in order to make the market and the price at home? Do you know that of every ten bales of cotton that are produced in this country, we are dependent for the foreign market for six or seven? It is true that if we take our whole trade as an entirety, perhaps not more than ten percent of our actual products are represented by the foreign demand. But it is precisely that ten percent which are the marginal ten percent, and which affects the entire product and protects the profits on that which is left.

How blind are they who would expect our prosperity to return or, when once it will have returned, to remain, without retaining and increasing the foreign market, which is at the present time and which is becoming more and more every year the very nerve center of our

economic activity. How can we dare to think that we can afford to practice a policy of economic isolation in the face of these facts? What business man is there of sanity who does not feel that his prosperity depends upon the prosperity of his customers? Who can get rich by dealing with poor people? How can anyone think that we are so independent of what is going on today in Italy, in France, in Belgium, in Germany, in all the Continental countries as well as in Great Britain, without realizing, not indeed perhaps as an eloquent Senator said the other day, that we and they are Siamese twins—the connection perhaps is not quite so close as that—but of the two propositions, the one of economic and political isolation, and the other that of the inextricable intertwining of our very life blood with theirs, I should say that the latter proposition is the more correct one.

Well, then, if we are dealing with these results of the most cataclysmic episode that the world has seen, if we are inevitably and inextricably intertwined with the prosperity of abroad, do you not see that the problem of our debts, of the foreign debts, is inevitably mixed up with, enmeshed with the problem of reparations? Here we are, ready to give good advice to France. Who had the good fortune among us to listen to that soul-stirring and eloquent address of Clemenceau the other night? (Applause) Who could have heard that and not realized how absurd it is for us to say to France, “Give up part of your claims against Germany,” and then, in our smugness, to demand every cent of our claims against France? (Applause)

The man to whom you have loaned money and who refuses to pay, is one thing. The man who has stolen from you or who has burned your house and then refused to pay, is no less signally a malefactor. To France we say, "Give up your claims against Germany. Reduce it from 132,000,000 to ten or fifteen billions. But to France and to Italy we say, "Give us every penny of the money that we gave you," and we say more; because when we loaned Italy the two billions that she owes us, we loaned her the money in dollars which were then equivalent to a certain sum of lira. Today, with lira at four cents instead of twenty cents, those two billion dollars represent, so far as Italy is concerned, ten billion dollars. We ask Italy to give back to us not what she gave up in the way of energy and effort and work, but several times that. And, ladies and gentlemen, do not forget that when we speak of the allied debt it is not alone, as Sir Gilbert Parker has said, that Great Britain has loaned to the other Allies almost as much as we have loaned to all the Allies—we have loaned ten billions, of which some four and a half billions went to Great Britain. Great Britain loaned some eight billions, of which another two billion went to France and almost as much as that to Italy. And do not forget that France loaned almost as much as she got from Great Britain to the other and still more need Allies. Is France demanding back those two billions? Is England demanding back her eight billions? When we say that we have loaned half of this sum to Great Britain, we forget that Great Britain was only the conduit through which the advances were made to the more needy nations of Europe, the nations that are the most impecunious, the most embarrassed, and that are the only bankrupt nations of the world. And that brings me then to the real point of the evening. I do not demand—I never did demand—that we should cancel the debts. It would

not do much good to forego those debts for the reasons that we have heard tonight and for a great many others. There are two extremes that are possible. Both of them are being discussed and neither of them is advisable. The one is complete cancellation of the debt. The other is immediate repayment of the debt, just as unwise as the other, for why would the demand for immediate repayment of the debt be unwise? And for three reasons: first, because there is, at the very least, a doubt connected with the moral basis, the ethical implications of that debt. The money went, of course, but are we quite so sure that we are morally justified, not legally, but morally, justified in demanding back every penny? Do we not recognize the fact that when we went into the war it was a common effort? Indeed, for purposes of economy and convenience it was agreed upon long before we entered the war, with other nations, that they should look after the payments of the revenues separately. Any other plan would have meant delay and inconvenience. But when the truth is told, and if we look upon the situation as a whole, there is no doubt that while France and Italy were primarily responsible for the man-power, despite the two millions of men that we sent abroad, despite the millions of men that England sent, yet France and Italy and Belgium were relatively responsible for the loans and for the material and we were primarily responsible for the food that we sent. If it was a common effort, and if the results were the results of a common enterprise, is it fair, is it entirely just, to day that the nation which suffered the least from the war should now cause all the other partners to suffer the most? Do not forget for a moment, gentlemen, that while indeed we entered and emerged from the war with clean hands, we emerged with full hands. In the period before we entered the war we made untold profits, five



or six billions, which converted us from the debtor nation of the world, to the greatest creditor nation. It is true that the awful havoc of the war, itself largely dissipated this gain, so that the ultimate result is that the wealth of this country today is only just what it would normally have been in the way of increase without the war. But look at what happened with all the rest. Look at what happened to England. We have heard that England has balanced her budget. But how has England been able to balance her budget? First, by increasing her taxation to a point of unheard of and unthought-of in this country and, second, by abandoning all hope of paying her own debt. As a matter of fact, the Chancellor of the Exchequer has said, "It would be impossible to put aside a single penny for the amortization of the debt." They are able to balance their budget because, if the truth be told, England is today living upon her capital, and if you go across the channel to France and to Italy, where the lira is worth today four cents instead of twenty cents, where the situation has been such that you have got the Fascistic revolution, which really mean the frantic effort of a nation to get on its feet again; if you look at the situation in France and know, as I know, of the efforts that are being made to keep a brave front to the world in the face of the most serious situation; if you face all these things you will have to realize that the situation is by no means as it is so often represented to us.

They are the real sufferers, and above all Italy and France and the others of the nineteen debtors of this country. They are the real sufferers. We are the real gainers. We did not get colonies, it is true. We did not get much reparations, on paper, but we got what was a great

deal better than that, we retained the capital which enables us to move forward and to look to the future with a fairly complacent satisfaction, whereas in every country of the world, of Europe, of the Continent, the situation today is on the whole worse than it was three years ago, and the outlook is dismal indeed.

If, then, there is this question of taint, this question attaching to the moral basis of our debt, must it not lead us at all events to go a little slow in demanding every jot and tittle of the operation? And, in the second place, if we did demand it, could they pay it? Can a bankrupt Europe pay its debts when it took England forty years to pay of 75,000,000 pounds of her Napoleonic debt, and she is still struggling with a debt of one hundred years ago? Is it sensible to expect that countries like Italy and France, not to mention the others, who are not even within measurable distance of being able to balance their own internal budgets, where there is a margin of billions between the outgo and income, is it possible to think that you can extract from them the where-withal to pay the debt? And if we could, would it avail us anything? Did it avail England much to get the German fleet and the merchant marine? What seemed an advantage has now turned out, as we all know, through the cataclysmic destruction of the shipping industry of the Clyde and elsewhere, to be a disaster, not a blessing. Do we think that we shall fare any better if the whole of Europe, which can ultimately only pay its debts in goods, not in gold and in other things, that if Europe is able to pay its debts in these billions of goods, it will not interfere with our market for similar goods which otherwise we should have sent abroad? How blind are those who do not see how

absurd it is, who, like the proverbial ostrich puts his head in the sand oblivious of what is passing on about him.

And then, gentlemen, I would say in conclusion, we do not want cancellation of the debts, because it would not help anybody. We do not want immediate payment of the debts, because it would harm us as much, if not more, than the European countries. But even the demand, as exemplified in the principles underlying the Debt Commission, is a failure. The law requires us after a few years to demand interest on the whole amount and to fund the whole amount for a period not to exceed twenty-five years. That law ties our hands. It makes it impossible for us, whether we will or not, and sooner or later public opinion in this country will, I am sure, come to the point where it will say that we should, it will make it impossible for us to make any compromise or accommodation with Europe, with England, with France, with Italy, looking toward some general scheme which will not put all the burdens upon France, as the present plan is, but which will enable us to share to some small extent the burdens which, as Clemenceau has so eloquently put it, we have no right to shirk from.

There are obligations as well as rights in this Allied debt problem. Do not let us simply emphasize the rights. Let us look also on the obligations.

And thus, gentlemen, I say in conclusion, honesty is indeed the best policy. But it is always the right policy. Generosity is also generally the best policy and always the right policy. We

can afford to be generous because we alone have emerged from the rack of the storm with our heads still high and with our efforts unabated. Let us be generous as well as have any eye upon our interests. Let us finally decide to look at this whole problem of Allied debts as a part of a much larger problem. Let us, in conclusion, fatten our pockets, but, at the same time, save our soul (applause).

Chairman, William Church Osborn:

I may describe the next speaker as the rising hope of those stern and unbending Republicans whose party tenets are almost their religion and, they may add, that he is a source of honest pride to those of us who, regardless of party, rejoice when ability and character enter the public service of the United States.

Gentlemen, I have the pleasure and the honor of presenting to you Congressman Ogden L. Mills of this city (applause).

The Honorable Ogden L. Mills

Congressman

Mr. Osborn, and gentlemen of the Economic Club. I am a little at a loss to know what I am doing in this company of distinguished experts, statesmen and economists. Perhaps I am

asked to address you from the standpoint of the layman whose sources of information are only those available to anyone who has the industry to do a little reading.

I must apologize to you for my voice. I left it at New Haven last Saturday when Harvard scored a touchdown (applause).

Now, in discussing this subject I proposed to confine myself strictly to some of the economic aspects of the question. Frankly, I do not believe that a solution will be furthered at this time by debating whether the debts and obligations, or any part of them, should be remitted as a matter of charity or justice. Here are a group of enormous liabilities, practically none of which are being met today, but which, nevertheless, exert so great a pressure on the economic structure of the world as to constitute in their present form a serious obstacle to economic rehabilitation. The question to be asked is, not how they were incurred, or why they were incurred, but can they be paid, when can they be paid, how can they be paid, and is it wise to press for payment now, and, in certain contingencies, ever?

The reparation obligations of Germany have become in the public mind so inextricably bound with the whole problem of international indebtedness, that a discussion of either one of these problems alone seem wholly inadequate, even from a strictly American standpoint. Public opinion is, in the main, right, though the four billion dollars, more or less, owed us by Great Britain is unquestionably good, irresponsive of whether that country collects from

Germany or not, and though we have a much larger direct interest in German obligations than is generally supposed, namely, a direct liability of the German Government to the United States Government of some 700 billion dollars. Public opinion is right, because in the case of one of our principal debtors, namely, France, the early ability to balance her budget and to pay interest on our debts is largely predicated on the collection of substantial indemnities from her former enemy; in the second place, because the economic recovery of Europe is, to a very great extent, dependent on a fully restored Germany; and, finally, because we may, from the experience of the latter country during the last two years, learn the effect of attempting to enforce international payments upon the government of a country which has no exportable surplus of either goods or gold, and is burdened by an inconvertible paper currency. It is to this last phase of the subject that I wish first to address myself, as the one most likely to throw light on what should be our course in the immediate future, which, after all, is our primary concern today, though I am by no means one of those who would sacrifice all possible future assets to the evident and pressing dangers of the day.

Germany's ability to pay is a question of national resources and income from the standpoint of the Germany people, of budget from the standpoint of the Germany Government, and of international trade from the standpoint of transferring payments. Let us consider these in order. The pre-war income of the Germany people was well over 10 billion dollars per annum. It is hard, then, to believe that their ultimate—not immediate—ability to contribute will not permit them to make the annual payments of 500 million dollars required, agreed to

under the terms of the London agreement, exclusive of the percentage of export duties, under the terms of the London Agreement. That is the amount which Signor Nitti, the Italian statesman, estimate Germany can pay, though Mr. Keynes' total is somewhat lower—not more than 300 million dollars annually.

The same conclusion can be reached in respect of the problem from the budgetary standpoint. But it seems clear here again that any substantial payments in the immediate future are out of the question. The German budget for the financial year 1921-1922 provided for the expenditure of some 93 billion marks, exclusive of reparation payments, and for revenue of 59 billion marks. At an assumed ratio of 20 paper marks to one gold mark, according to Mr. Keynes, reparations due under the London Agreement amounted to some 70 billion marks. So that, the reparation bill would more than absorb all existing revenue, which is already insufficient to meet current home needs. I know that the claim is seriously pressed in responsible quarters, that Germany could and should balance her budget, now, not only for the purpose of meeting her obligations, but to put an end to the constant depreciation of the mark. Without denying the very obvious need of a real effort on the part of the German Government to live within its income, and without questioning the undoubted and far-reaching effect on the value of the mark, of the steady use of the printing-press, nevertheless, I must agree with Mr. Keynes and Professor Williams of Harvard, who both pointed out that to demand restriction of the inconvertible paper as the fundamental cure for the whole problem is to beg the question. Mr. Williams concludes from his study of the situation that

the increase in note issue has followed the decline in exchange, rather than preceded it. Let me quote a passage from a recent article by the letter which states the case with clarity: He says: “It seems unmistakable from Germany’s experience last year that the sequence of events was as follows: the reparation payments by greatly increasing the pressure of demand for foreign bills wherewith to make remittance, and also by impairing confidence drove down the value of the mark in exchange. Import and export prices rose in close sympathy with the exchange, and domestic prices followed upward more slowly...with price rising, the state and private demand for credit was increased. To meet customers’ demands for bank notes, bankers, holding their liquid assets mainly in treasury bills and only a minimum of the non-interest-bearing Reichsbank notes, would present treasury bills for excashment in bank notes, increasing the Reichsbank’s holdings of treasury bills and forcing increased issues of bank notes in payments. At the same time, since the revenue of the government is relatively fixed in the budget, whereas expenditures increase continuously with the rise in prices, the resulting deficit compels further issue of bank notes and treasury bills. If this analysis is correct, relief in Germany’s financial and monetary difficulties must be sought in the reparations question and the foreign trade, rather than in some point farther down the chain of consequence.”

Finally, we come to the third point, namely, ability to transfer international payments. In the absence of a gold surplus, this can only be done by means of foreign securities held by the German Government, or through an exportable surplus of goods. The first two methods are



not available, for while Mr. McKenna, in his speech in New York a month ago estimates that German Nationals still own a billion dollars of foreign investments, these are, for the most part, safely out of Germany and out of reach of the German Government; nor can I believe that they will be readily yielded up by the individuals who own them for reparation payments. Has Germany an exportable surplus of goods?

For the five years ending with 1913, imports into Germany exceeded exports on an average by 370 million dollars a year, the difference representing the surplus of income from foreign investments, shipping earnings, tourist expenditures, and the like. Since the War removed most of these credits, and at the same time deprived Germany of a fair proportion of her raw materials it is evident that, irrespective of the payment of her obligations, Germany must recognize her own industrial internal mechanism, as well as her international trade. That this is possible is not open to dispute, and that in addition, Germany, if given a breathing space, could, without too much difficulty, find an exportable surplus, is indicated by the experience of France in 1870. The French, you will remember, paid an indemnity of one billion dollars by 1873, and in the process of payment so increased their exports that an average adverse balance of trade of 65 million dollars a year for the four years 1868 to 1871 was converted into an average favorable balance of trade of 46 million dollars in the four subsequent years. It is not unreasonable to suppose that a similar change might have occurred in Germany had the pressure exerted on her been less severe and the minimum demands been more reasonable.

The fact is, however, that Germany has found it impossible even to balance exports with imports and her exchanged has been steadily depreciated. The last named circumstances under any normal economic theory should have favored exports, but, except for the early period succeeding the Armistice the periods which have seen the most precipitous drop of the mark have likewise witnessed a mounting adverse trade balance. Thus, the mark fell from 1.77 cents in May, 1921 to 37/100 cents in November, while expressed in terms of gold marks, the excess of imports over exports, increased from 63 million marks in May to 120 million marks in October. From November to February, 1922, the mark rallied, and during those months there was actually an excess of exports over imports. But when the mark took its last plunge, the situation was again reversed, and imports once more exceed exports month by month. The reasons for the paradox will be found, I think, in the need for foodstuffs and raw materials. They constituted in 1921, 88% of imports—a need which had to be satisfied before exports of highly manufactured articles could begin; in the frantic home buying which the rapidly depreciating currency encourage, accompanied, as it was, by a fear that the home market would be stripped of goods; and finally by the measure adopted by the Government for controlling the export trade. Far from assisting exports, the depreciating exchange has had the opposite effect, while it has produced chaotic conditions in the financial, industrial, and commercial life of the country.

Thus we complete the circle and return to our starting point having found every influence, beginning with reparation, ending with an unfavorable trade balance, and including such powerful factors as government deficits, lack of public confidence, frantic buying of goods and securities at home and the forced sale of the mark abroad, all tending to a never ending depreciation of German exchange.

From all this, one fact stands out in my judgment beyond dispute; that the policy pursued towards Germany since the Peace Treaty was signed has not only extracted but an insignificant amount of cash, some \$370,000,000, but has resulted in such economic confusion that the industrial and commercial reorganizations and the stability which is essential to business and commercial dealings—all three of which are prerequisites to any payments—have been rendered well-nigh impossible. If Germany is to pay, reparation pressure must be relieved for a reasonable interval of time so as to permit her to stabilize her exchange, to balance her budget, and to reorganize her industrial and commercial life. But given time, it is impossible for me to believe that German energy and efficiency will be unequal to the task of putting her own house in order and ultimately making good to a reasonable extent the damages inflicted by her war of aggression. (Applause)

If we turn now to the debts owed us, we find that out of a total of some 10 billion dollars, approximately 7-1/2 billion is owed by two countries, France and Great Britain; of this amount some 4 billion 166 million dollars by the latter country. In so far as Great Britain is

concerned, her leading statesmen and businessmen have told us that she is able to pay and that she intends to pay, and I, for one, am satisfied that, no matter how willing we might be to wipe out this debt, Great Britain could not afford to consent to the abrogation of the contract without permanent damage to the credit and world financial standing acquired through the course of many generations by the consistent practice of meeting every obligation when due, until the financial premise of the British people to pay has come to be looked upon as one that could be universally accepted without question, and would never be broken (applause), Have you considered the effect of remission of this debt on British credit and ability to borrow in future generations? I recognize, of course, as Professor Seligman has said, the injustice which may result from Great Britain making good while she is unable to collect what is owed her, but I believe that the British people will want to pay in spite of the injustice, and that the proper course for us to pursue is to extend payment over a long period of time and at minimum interest rates. (Applause)

But what of France? Here is a very different problem. The French owe Great Britain and the United States no less than 6 billion and a half dollars. Whether we look at France's ability to pay from the standpoint of her national resources, the reparations from Germany, from the standpoint of her governmental budget, or from the standpoint of her international trade balance, it is quite evident that she will be unable to pay even the interest on so vast a sum in the near future. The budget for 1922 provides for an authorized expenditure of approximately 48 billion francs, of which 25 billion are for ordinary and extraordinary expenditures, and 23

billion for so-called recoverable expenditures, including reconstruction and the cost of the Army of Occupation. The revenue is estimated at 24 billion franc, leaving a deficit of slightly over 24 billion francs for this year to be covered through loans. On March 1<sup>st</sup> of this year, the public debt amounted to nearly 317 billion francs, of which the foreign debt accounted for approximately 75 billion. The interest charges on the internal portion of the debt now total over 13 billion 100 million francs, and it is estimated that by 1930 the debt service charges will amount to very nearly 17 billion francs per annum, or almost 460 francs per capital. If to this be added interest on the foreign, the burden on the French taxpayer, until relieved by substantial reparation payments, will be a crushing one, an absolutely crushing one, even should it be possible to reduce current expenditures to as low a figure as 8 or 9 billion francs per annum.

The French had succeeded by the early part of 1922 in almost balancing their exports and imports, though lately they have not done as well, and with the increased resources derived by the acquisition of Alsace and Lorraine and the unquestionable increase in efficiency and productive power developed during the exigencies of war, it is not unreasonable to expect that, in the long run, the country which paid a 5 billion franc indemnity in four years may eventually extinguish an obligation which at present is six and a half times that sum, particularly if France should recover at least two-thirds of the amount from Germany, as she should collect, which is certainly a minimum estimate of what she should collect under any circumstances which might occur. But France must have time. How much, no one can tell.

To be unreasonable, not to give time can have only one result: to well-nigh France, without a particle of benefit to her creditors. Let those who doubt this study recent Germany history.

Mr. Hoover, in the illuminated speech which he made some two months ago pointed out that prior to the war the rest of the world owed Europe some 30 billion dollars, and that it found no difficulty in meeting the interest on this huge obligation; from which he argued that war debts and obligations, vast as they might seem, could and would be liquidated. He added, however, that the indebtedness to Europe represented a growth of 40 years, and this seems to me to be the essential difference between such an obligation and the ones we are called upon to deal with today: The one grew so slowly that international trade and finance was readily able to adjust itself to the gradual change so as to effect the transfer of payments without serious or, in fact, without any real disturbance. But these billions of new world obligations have come upon us overnight. Some people are amazed that ways and means cannot be immediately devised to readjust international balances, and to bring about instant payments. They deal with these debts in terms applicable to contracts between individuals and insist on the letter of the bond, utterly regardless and irrespective of the existing conditions. Others, appalled at the magnitude of the problem and the vastness of the obligation, would wipe them out altogether, irrespective of the equities, and regardless of the possibility of an ultimate solution. Both of these extreme views are, in my judgment, erroneous. Who can foretell the future, the latest possibilities of increased production which the next 40 or 50 years may bring forth? Mr. Hoover told us that international trade doubles every twenty years, and what

might be an intolerable burden today might well prove to be but a moderate one 15 and 20 and 25 years from now. Let me not anticipate the future. Let us confide our attention to the immediate present, and if the lessons of the past two years mean anything, if the picture which I have so inadequately presented to you tonight has any significance whatsoever, there is no doubt but that the wise course to pursue today is to relieve the pressure for payment, to extend the period of payment over a reasonably long period, and to waive of fund interest, if necessary. The world has all it can do to mend the wounds and the destruction of four years of war, without complicated this complex and arduous task by attempting the immediate settlement and the ultimate solution of these new and stupendous obligations of international indebtedness. Thank you. (Applause)

Chairman, William Church Osborn:

I wish not to introduce, but to present the next speaker, one well known upon this platform, an ex-President of this Club, and a man distinguished in business, in public life, and in literature, one whom may reasonably and confidently expect will be able to throw light upon the dark places, as we has done in the past, your honored ex-President, Mr. Henry Morgenthau. (Applause)

The Honorable Henry Morgenthau

Ex-President, Economic Club of New York

Mr. Chairman, Ladies and Gentlemen, I never know where the world “sandwich” came from until this summer. I visited the Earl of Sandwich and told me that one of his forefathers, who was a great card player and did not want to spare the time from his game to eat, used to send out and ask the men to bring him in a great big chunk of beef between two pieces of bread, and they called that a sandwich, and I want to say at the outset that I am not going to be a chunk of beef that is put between those two Republican Legislators (laughter).

I am just going to change my entire speech, Senator Burton. I gave the Senator my notes to read, but this discussion has taken such a different direction, that I am going to change my remarks from what I intended to deliver.

I agree with two propositions that Sir Gilbert Parker made, in fact, three. The praise he extended to me I agree with also. I agree with him that it is absolutely necessary to have criticisms and opposition, and I want to quiet his fears. Winston Churchill is going to have a seat very soon. Someone is going to resign and put Churchill back on the opposition benches. But what I principally agree with, Sir Gilbert, is that we must have an intelligent commission that is to meet in the United States and that is to have full power to thoroughly investigate



these matters, and I believe that Sir Gilbert spoke for England, that England will assent to any conclusions that that commission will arrive at, and every other country will.

Now, my friends, I think that Congressman Mills did not go back quite to the source of the trouble. He said that everything starts from the reparations. If he will allow me to say to him, back of it all is the demand from the French for security. The primary trouble in this entire matter is that France—you have heard an allusion to the debt she had to pay in 1871 and how she paid it. France, for more than 44 years waited to re-collect not only Alsace and Lorraine, but to regain the money which she paid, and also to make herself safe for the future.

You cannot consider this whole serious question without taking into consideration the human side of it. Any of us who have spoken to French officials, and to the prominent French people who have been told that if they had to choose between the reparations and have security for the future, they would rather forego the reparations and have security, and that is where we, in the United States, are very much at fault. If we think that France is secure against further aggression, why not assure them of it? If we do not, and we think there is a terrific war coming again, why not participate and prevent it? We went into this war as much to prevent future wars as anything else. There were other reasons. Now, if you take a general view of Europe and look at what has happened, if we recall, perhaps Professor Seligman's description, and I had one, Professor, which was perhaps even more picturesque than yours, but you have stolen my thunder, if you think back to what this world was before the war, how

the oceans are teeming with these magnificent greyhounds, any one of which carried as much freight in value and quantity as all the caravans for a whole year that used to cross from Baghdad to Damascus and Jerusalem and to Constantinople, if we think how every machine shop was humming with activity, how everything was going so beautifully, and then see this other picture, we today, see only swords where the whole sky is full of Damocles' swords, as many as there are stars in the sky, are hanging over these European countries, my friends, it takes a visit to these countries.

I was fortunate enough this summer to visit a number of these countries. I visited first Germany. I was simply dumbfounded, when I went up to visit Krupp's factory in Essen. I went through that wonderful factory. I saw how they had converted it back again to only manufacturing things used for civil purposes. I saw this great big room, in which you could put ten like this or more, converted from a munitions factory, from any armor plate factory, to a locomotive shop where they were turning out one locomotive a day. I saw there other things, another great big room or building converted into a factory for agricultural implements. I saw those 55,000 men at work. I found out what I had not known, that their plant was right over a coal mine. They could get their coal right out of there and manufacture. I found out too—and that is the reason the French are somewhat justified in their fears—I found out that they could reconvert this factory into a munitions factory is destroyed as long as their corps of exports are still held together, and I discovered that except

seven or eight hundred of the nine thousand, that had been sent to Russia, the other thousand and several hundred were still on the payroll of Krupp's factory.

So do not let us think that France—and I hold no brief for any particular country—that France is entirely wrong in this fear.

Now, my friends, I happened to go to Austria. I cannot stay too long in any one country or else I would be called out. I asked our Minister there to give me an opportunity to meet the representative of the Government. We sat in Minister Washburn's house, the Prime Minister, a fine old clerical gentleman, Dr. Seibal, his finance Minister, and the manager of the finances of Austria, and we discussed this matter until away past midnight. These people disclosed to me the utter impossibility of their continuing their governmental existence without help. They are actually forced by circumstances to have 30,000 unnecessary employees on their railroads. They said to me that they could not discharge these people without a revolution resulting. They told me that they had to keep the charges for their freight and passengers at the low price that it was because these men and women would not pay a better price that it was because these men and women would not pay a better price unless they first had a revolution, so that nearly half of their deficit is due to the fact that the government has taken over these railroads. When I suggested to them the possibility of an American commission or corporation being formed that would take hold of these railroads and run them as they should be run, they positively embraced me. They compelled me to try

and to do it. As you all know, our government took the attitude that nothing should be done until the German reparations question should be adjusted.

I happened to go into Italy. It so happened that I was there just during the interregnum when Facta and his Cabinet had handed in their resignations. We were asked to go to the foreign office, a few of us, to be present at the presentation of an oil painting of Secretary Hughes. It was really amusing to have these gentlemen ask us, "Can we receive this oil painting? We don't know. Are we the government or are we not the government? Our resignation has not been accepted. We have no right to act." We told them they could, and they did receive it. Think of the government of a country being in that position, and that was the reason it was so easy for Mussolini to come in and take possession of it.

Now, my friends, if I started in on Turkey, I won't leave much time for Burton, so I won't say much about it. But I will say to you this, that those countries, and it is a strange thing, they are coming back there. Turkey, which was the worse, is coming back. It seems to be the inverse order of alienation. Turkey always is coming back because they have nothing to defend. They have no interest to protect, and they are coming in as any bandit or highwayman would, they are going to fight their way back. The more complicated the machinery, the more intricate the great fabric of commerce, as it is in Germany, the longer it will take.

Now, it seems to me that we Americans ought to sit together and take council, and make up our minds, after what we have heard and read and are reading all the time, that it is about time for us to act, and I was surprised that our present government was satisfied to send observers to Lausanne.

I am going to talk a little politics. Here was their chance, without eating too much crow, to send people with some power to Lausanne. If they had sent the right men to Lausanne, and Sir Gilbert will bear me out, all these other representatives would have welcomed them as the leaders. They would have eaten out of our hands. They would have done anything that we would have asked, and it would have been a comparatively easy thing to afterwards turn this restricted conference into a general conference, and the whole question of reparations could have been decided.

We are all agreed, every sensible person is agreed, that reparations must first be fixed. Why, it is nonsense to talk about a balance sheet. How can you gentlemen, who are businessmen, make a balance sheet, when you don't now in what coin you are going to pay? Gold and silver have disappeared. What has taken the place of it? Rags converted into paper and stamped with something, and they are not worth more than the rags that they are made from.

Now, if the condition is like that, why shouldn't we assert ourselves? Why should we submit to having a statement made that we, too, are there at Lausanne to protect the oil interests of

America, when we ought to call attention, and most vigorously, to the fact that human lives, hundreds of thousands, over which we have voluntarily assumed a sort of guardianship, have been in there and make a statement, our Ambassador makes a statement, that we want the open door. Gentlemen, if that door is opened for us we will find the room of Turkey full of the other countries, and we won't have a chance to get in. There is no such thing as the requirement of an open door in Turkey, because the Turks have so conducted themselves that they will be unable to transact any business. They have killed off the men that had any business knowledge. They have been converted back again into a band of marauders and I do not think that this country cares very much for the open door, even if the door is open for us to deal with this kind of people. I think the time has come for this country to say, "We are going to recognize existing conditions. We are going to say to Great Britain who has stood there at the Dardanelles and saved civilization—" I happened to be in England at the time (applause), and no matter what the Cabinet was, Lloyd George and Winston Churchill made up their minds that the Turk would never be allowed to penetrate into Europe with the blood of those people on his hands and get money, and no one would know where he would stop (applause).

It was France again; poor France would not help herself. She had been forced into making a treaty in order to avoid an ignominious retreat. She had to make a treaty with the Turks by which she pledged herself not to fight them. Italy had to do the same thing. The Greeks were driven out and England stood there, and I want to say this to you, that England is unable, and

they admit it frankly, to keep up this defense. They must not be the only sentinels of civilization. They have given us this civilization. We have profited by it, and we are arrant cowards if we do not pick up the flag and hold it aloft, and defend it with them. (Applause)

Now, my friends, we do not condemn—I do not—the Republican Party. I am sorry for them (laughter). They have got to carry a few bad men. If they were all like Brother Mills and like my friend Burton, we would not have anything to quarrel about. But I believe that they are responsive to public opinion, and I think it is meetings like this that can create public opinion, and if we only would understand that America, as was so correctly stated, is dependent upon her connections with Europe for her prosperity, but leaving that aside, let us look at it from a humanitarian point of view. Suppose we would have to readjust ourselves to do about 65 percent or 70 percent of our business. How quickly would we get there? A year and a half ago it seemed almost impossible for us. Everything looked gloomy. We went through our process of deflation and we almost completed it. We could not deflate properly the price of labor, nor could we deflate rents, it takes time to do that. We cannot do that suddenly. But otherwise, we are back again and are adjusting ourselves to those new conditions. But if you would picture to yourselves the moral depression that exists in Europe among the business managers of Europe, the men who have for thirty or forty years been trained and have been employed in running these tremendous establishments, and who are the only ones that are capable of doing so, if you would listen to their tales of woe and would see how they feel and how impossible it is for them to go on unaided, and if you would see

how they brighten up, how hope seems to pervade their systems if an American, no matter whether he has any power or not, no matter if he has any influence or not, if he is only an American and will say a few encouraging words.

We know what was done in this country during the railroad difficulties a way back—some of you are not old enough—some of you have read about it simply—but during that period of reorganization, after our railroads were all, one after another in bankruptcy, it took a sturdy lot of Americans, good financiers, able men, to take one after the other, discard some of them, build them up, and again give us perfect service. The United States must furnish the committee on reorganization for European affairs, and we have got enough brains in America to do it, and we won't miss them while they are abroad doing it, because we have so many (applause).

Now, my friends, this is a very serious matter. We may think that we can go on here and not do this, but this is our task, and that is the task that we must prepare ourselves to do (applause).

Chairman, William Church Osborn:

The concluding speaker of this interesting evening is the Nestor of American public life, the Honorable Theodore Burton of Ohio (applause).



The Honorable Theodore E. Burton:

Mr. Chairman, and members of the Economic Club and ladies and gentlemen: I thank you for this very cordial greeting. What is the matter with Europe? In attempting to answer that question I am compelled to criticize more severely policies adopted across the sea than my predecessors have done.

Economists and historians have noted with glad surprise the rapid recuperation after wars, both of victorious and vanquished nations. Europe entered upon an era of exceptional industrial expansion at the close of the Napoleonic Wars; Austria, defeated and compelled to submit to loss of territory in 1859 and 1866 gained a place in the commercial and industrial life of Europe altogether unknown before; the debacle of 1870-71 was succeeded in France by a period of recovery and growth which astonished the world. The reasons are not difficult to discern. In time of war the activities of a people are strained to the utmost. There is a unity of purpose and an awakening of latent powers unknown before. When the contest is finished these aroused efforts are exerted for the enjoyment of the triumphs of peace. Such improvement has not been manifested since the late appalling struggle. What are the reasons?

First, the unprecedented magnitude of the struggle and the terrible loss of life and property. The facts are so obvious on this point that it is not necessary to dwell upon them. A situation

was presented not unlike that after the Thirty Years War from 1618 to 1648, which resulted in the almost complete exhaustion of the combatants.

A second reason is found in the fact that peace has at no time been assured since the armistice in 1918. Russia with her untold millions is not in harmony with the civilized nations of Western Europe or with America. All along there has been a threat of an uprising in the Ottoman Empire with vague intimations of support from the rest of the Mohammedan world. But most of all the postponed recuperation may be ascribed to moral and spiritual causes quite apart from the physical losses which have been so fast. These are the legacies of hatreds and animosities arising from the bitterness of the contest, accentuated by age-old repulsions due to differences of race or religion and the remembrance of wrongs and conflicts in the past. Such antagonists have prevented the inauguration of a period of tranquility and cooperation and have filled the world with constant threats of a renewal of warfare. They have found expression in the severe terms imposed by the victor upon the vanquished, especially in the Treaty of Versailles, which is the most important, also in that of St. Germain with Austria, that of Trianon with Hungary, and last, that of Sevres with Turkey, which aimed to settle the differences in the Far East of Europe. It was impossible to frame a treaty dispassionately when the contracting parties met in the atmosphere of Paris in the midst of burning recollections of the frightful cruelties of Germany and the awful losses to which the allies had been subjected. On a far smaller scale we may recall an analogous condition in the measures for reconstruction adopted after the Civil War of 1861 to 1865. The problem which

really confronted the statesman who gathered at Paris was the restoration of a suffering Europe, a restoration which could only be obtained by an abiding consciousness of the economic ties which should bind the nations together and of a common interest which could not be sub-served except by promoting the welfare, not of any one nation nor of any combination of nations, but that of all.

In passing, we may dwell with satisfaction upon the contrast between the United States and Europe; here there are 48 states with an infinite variety of resources and capabilities, between which is absolute freedom of economic and social intercourse; there a considerable number of nations between which there are enmities of long standing; each with its ardent national aspirations, its traditional antagonisms, its desire to build up its own economic and political life to the disparagement of all the rest.

There are two outstanding features in the treaties made, which inevitable tend to create chaos and delay recovery in Europe:

First may be mentioned the question of reparations demanded. I shall not for a moment advocate the release of Germany from the paying of an indemnity as great as she can bear. The crime of the Hohenzollern dynasty was unspeakable, and you cannot relieve the Germany people from their responsibility in the great crime, which led to the war. But at the same time it is not desirable to reduce that people to the condition of serfs and impose upon

them, as well as upon generations unborn, a burden so staggering that they are unable to carry it. It is not merely not best for them; it is not best for the rest of the world.

Among some of the people of Europe, most of all in France, I regret to say there is a wave of popular opinion which demands that reprisals be visited upon Germany so heavy as to destroy her economic life. They would take away from her not only the coal mines of Silesia and the Saar Valley, but those of the Ruhr basin, thinking that Germany can only be adequately punished and France be vindicated if Germany is practically ruined.

The reparation imposed upon Germany was fixed in April 1921 at 132 billion gold marks, more than 30 billions of American money. I need not say that to impose a burden of this kind on a country whose total wealth is probably not more than 70 billions of dollars, is something altogether beyond her ability to pay. The navy of Germany was to be given over or destroyed. For that there is absolute justification. All ships of 1600 tons and over were to be transferred to the Allies, half of those of between 1000 and 1600 tons, and of the fishing boats and smaller vessels, a considerable portion. Vast quantities of commodities, such as locomotives, cars and machinery, also livestock were transferred. For at least a part of these there was a justification, but any dispassionate student of the situation must recognize that the reparations demanded are altogether beyond what Germany can furnish, and the attempt to collect these reparations is any injury, not only to that country, but to the economic, social, and political life of the world.

The other great damage done to Europe was in the fixing of boundaries. Natural boundaries and essential outlets to the sea were disregarded. Alien people were mingled. Dominant races and those of superior culture, without discrimination, were made subjects of those who had been subordinate to them. Economic units which had existed for ages were rudely disrupted. It was a saying of Metternich, the Austria, that if political conditions had not created the empire of Austria-Hungary, economic necessities would have required it, because the products and resources of various portions of that Empire supplemented each other, and created one interdependent country.

A few months ago there was posted on the walls of Budapest, two maps, side by side, one a map of Hungary before the war, the other a map as she is now dismembered and below were the words, “Never, never, never”. In the remaking of the map of Europe, many Alsace Lorraine’s have been created. I might at great length detail the absurdities in the fixing of boundaries in the treaty of Versailles or in other treaties. The city of Gmund is located midway between Prague and Vienna. Two miles this side of the city, which is a railroad town, there are railroad shops, round houses and a junction. The boundary is drawn between the railroad shops and the junction on one side and the city of Gmund on the other. That upon which the city depends for its life is given to Czecho-Slovakia, and the city itself is given to Austria. Not very long ago a fire broke out in a railway station in Italy. Across the border in Austria there were fire engines capable of quenching the conflagration, but the firemen did not dare to cross the boundary line because they were not provided with the necessary

passports and the structure burned. At the boundary lines between nations almost insurmountable barriers are erected on imports and exports as well; embargoes are imposed on various products and prohibitive duties on articles absolutely necessary for the feeding of the people. There would be incalculable advantage in central Europe if the nations would combine in a Zolverein providing a large area within which products might freely move, with uniform duties on all imports. This would give a situation akin to that which the United States enjoys today.

We criticize unsparingly the unbalanced budgets of foreign nations and the issuance of unlimited quantities of paper money. When the financial history of the Great War and its aftermath is finally written, the one striking feature that will stand out most prominently will be the fact that the most injudicious financiering, the worst inflation in the issuance or irredeemable paper money and in making loans, occurred after hostilities had ceased. But the avoidance of these evils is not so simple a task as it might seem though absolutely essential to recovery. Immediately after the war it was necessary to supply large quantities of food and to purchase raw material that manufacturers might begin again. The burden of expenditure in caring for the disabled and unemployed and paying interest on debts involved disbursements altogether unprecedented. It was not easy to obtain from countries so impoverished, revenues sufficient to meet the enormous burdens imposed, and a method which had commenced during the war was continued on a much larger scale. This kept the presses at work printing money. The amounts are almost fabulous. The trivial value of paper money of half a dozen

nations of Europe would be humorous if it were not so tragic. A year ago, almost to a day, Mr. Vanderlip in an address before this club states that a dollar could be exchanged first for 79 marks and later for 330 marks. Now the value of the mark has so fallen that no doubt that same dollar could be exchanged for 5000 marks, for 7000 even, and the course is still downward. In Austria the Krone, which would naturally be worth a little over 20 cents is quoted at 7700 to the dollar. In view of such fluctuations, commercial transactions are a gamble. Thrift and business ability are both alike futile. Paper currency in Austria, Germany and Poland has approached so nearly to the vanishing point in value that repudiation would be the less of two evils. Possibly this enormous amount of currency could be exchanged on a basis of the present gold value. Reduced to terms of gold currency, the expenses of some countries of Europe are ten times as great as before the war. In the aggregate of budgets military expenses and expenses for navies still furnish an inordinate share. Has there been no more salutary result for so much loss of life in the cause of liberty and peace? If the nations of Western Europe who were allied in the war would act with a common purpose, appropriations for armies and navies might diminish, not to trivial amounts, but to dimensions which would not threaten bankruptcy. Drastic reforms in budgets are of fundamental importance, but how futile it is to discuss these points when the real root of the matter is in the moral dispositions of the nations. So long as there are imperialistic ambitions in which each is trying to outdo the other a settled and prosperous Europe cannot exist. Europe has much to do in abating the hatreds which are so deep seated and so extreme that thoughts of forgetting or of forgiving are still eclipsed by measures for punishment. There

can be no recovery there until there is an appreciation of the fact that the one central idea in all their policies—the polar star as it were—must be one under which asperities will be allayed and antagonisms abated.

It is said by many foreigners who visit our shores, and by some of our own countrymen that the effective remedy for this situation lies in our own participation by active touch in the affairs of Europe. As a supporter of the League of Nations, provided our country should be protected by proper, but not absurd, reservations, I feel free to speak on this question. I never had any fear of a super government. The danger which threatens the League's efficiency is from impotence rather than dominance. The hope still survives that the vision of a Parliament of the World may someday be realized and the prospect of an august World Court is a promising one. But what can we do when Europe is in the present ferment? When they are at daggers points with each other; a decision in favor of one of them, or even a friendly suggestion, would be met with instant opposition if it should clash with selfish ambitions. I am aware that there are those who feel Europe is waiting for us to be her guide, philosopher and friend; that her peoples would be docile in following our leadership and bonds of unity would exist akin to the sweet ties of the domestic relations. Unfortunately such is not the case.

What have been some of the results of our participation in European affairs since the war? President Wilson visited Italy and was received with acclaim never accorded to a foreigner,



municipalities vied with each other in naming streets and avenues “Via Wilson.” In describing his reception, we may paraphrase and adopt the account of the reception of Pompey—and when they saw his autobus appear, did they not make a universal shout, that Tiber trembled underneath her banks? But alas for the fickleness of national attachments. The question arose in regard to Fiume, which was a natural outlet to an extended territory on the east side of the Adriatic Sea. In the agreement of 1915 with England France and Russia, under which Italy had entered the war, no claim was adopted by her for this city. Mr. Wilson with the utmost good faith and from the standpoint of a friend adhered to the opinion that Fiume ought not to be claimed by Italy. But it was claimed and immediately admiration turned to wrath and the good will, which was manifested so profusely, gave place to bitter criticism. (Applause)

With the acclaim of the whole civilized world the Conference at Washington last winter framed a treaty for a drastic limitation of naval armaments. This treaty was a mighty stride toward that peace which all civilized nations proclaim they earnestly desire. No country was so capable of expanding its navy as our own. Concessions that were made were the greatest on our part, but were are now informed that France hesitates to ratify this treaty, and one of her prominent statesmen asserts as a reason that it would be humiliating to her pride.

Will the Turk flushed with victory and fanatical accept the good offices of the United States? What was accomplished when our representatives met with the statesmen of Europe at Paris?

In the Treaty of Versailles the 14 points became a scrap of paper, and that compact was responsible for the postponement, yes, we may almost say, for the defeat of the prospects for a better day in Europe.

As regards the allied debts to the United States. I am inclined to believe that in comparison with that other greatest of cities, London, there is quite as active a propaganda here for their cancellation as there. On this subject I accept the mandate of the Congress and concur with the numerous expressions of Executive Officers of the United States, all of which have been unequivocally opposed to cancellation. First and foremost there is sanctity in international obligations, which cannot be ignored. In this connection we must consider the circumstances under which these loans were made. The amounts required, aggregating more than 10 billions, were obtained from the people and with no small degree of difficulty. Those who are here tonight remember the intensive campaigns in this city of 1917 and 1918. The legislation authorizing the loans to foreign countries provided for the application of repayments toward the payment of obligations incurred in making them. Generally speaking, the provisions as to the term and rates of interest were intended to square with those provided in bonds taken by the people of the United States. There was no thought of release. The question of cancellation is not by any means a new one. Schemes were advanced in Paris when the treaty was under consideration for an apportionment of the cost of the war on the theory that all were engaged in a common enterprise. All these were flatly rejected. At the same time, the Treasury Department at Washington distinctly stated that propositions for release could not be

considered. Secretary Houston, in a memorandum communicated to the Chancellor of the Exchequer in England in the spring of 1920 expressly refused to consider any proposition for release. As a further argument against cancellation, it should be stated that the proportionate increase since 1914 of debt and taxation in the United States has been greater than that of our principal allies who were engaged in the war. We do not like to contemplate a permanent debt, and one of the most favorable features in our condition prior to the war was a comparatively light burden of taxation and of indebtedness. Again, our aspirations are for peace and a settled world and for diminished expenditure for armies and navies. It is perfectly manifest that with the conditions now existing in Europe, if these debts should be released, very large amount which otherwise would be paid upon this indebtedness would be utilized for increased military and naval armaments, which would create a constant threat of other wars.

Still further, in the Great War the United States was not subjected to the same imminent danger as her allies. In the peace she sought no acquisition of territory and large indemnities were not demanded. The fact is often overlooked that some \$2,500,000,000 was loaned to foreign governments after the armistice of November 11, 1918, and a very considerable amount for purposes other than the prosecution of the war. I may offer another suggestion upon this subject. England proud of her credit for centuries has signified her intention of meeting her obligations to us and has already paid within a few weeks past, 100 millions into the Treasury of the United States. This in the fact of almost overwhelming difficulties, as she

has been compelled to pay nearly 10 millions per week for subventions to the unemployed with many more than a million out of employment and with a load of debt ten times as great as that before the war. Shall there be discrimination against the one country that is coming to the fore to meet her obligations?

While seeking to obey the mandate of the statute enacted by Congress or a Debt Commission I made free to express opinions upon some of its provisions. It would be better if there were no rigid rule as to rates of interest or the term of the loans. While no one can forecast the future rates of interest upon national loans, we should be ready at least to reduce that rate if conditions warrant. The time of payment should not be fixed by any hard and fast rule. Another suggestion I would offer is that the bonds or other classes of obligations obtained from foreign nations be sequestered in the Treasury. It was the express provisions of the liberty loan acts authorizing the loaning of money to Europe, that the proceeds should be used in paying off our own indebtedness. That original intention, certainly as regards the principal sum, should be carried out; any other application of the payments would be a constant temptation to extravagance in public expenditure, and again if the bonds should pass from the Treasury, it would be impossible to readjust the term or rate of interest. Still further, it is desirable that a reasonable share of the amounts which may be paid by the debtor countries should, under proper supervision for security and the objects for which they would be utilized, be re-loaned for purposes of expansion and betterment in the countries which pay. I cannot accept the argument that this merely perpetuates the loans to foreign countries

and increase their burdens. The loans so utilized would naturally enlarge the resources of the debtor countries and make them more capable of meeting their obligations.

People of the United States have not been and will not be unmindful of their obligations to Europe and the rest of the World. Private gifts and National appropriations have been made for suffering humanity without stint. International relations are receiving increased attention. In financial transactions loans have been made abroad in vast amount and no doubt will be made in greater volume. Probably the day is not far distant when exports of gold will exceed imports.

For Europe the remedy is not in the cancellation of indebtedness to us but in the adoption of more rational fiscal policies, the abatement of military expenses and in the substitution of relations more sensible and more just for the present attitude of distrust and repulsion. The outlook is not altogether dark. The earth, though its surface has been defiled and drenched with blood will still yield her fruits with rich abundance. Moral and intellectual forces everywhere active to afford succor and guidance will not entirely fail in this time of crisis.

Let us hope that the threat of chaos and decay that hangs over the world may be dispelled.

(Applause)