

BEATING SWORDS INTO PLOUGHSHARES

(A suggested way to salvage the international war debts).

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IT is easy for us, unless we are very Red indeed, to sympathize with a man who looks through the securities in his portfolio and finds the record of investment after investment which he wishes that he had never made. We are tolerant of his impatience. We forbear to comment on his want of logic when, in the same breath, he curses himself for having been a fool and the men who borrowed his money for being unexpectedly incompetent or dishonest. We find it quite natural if he comforts himself with an account which is not irreproachably accurate of the circumstances which led him to acquire this bond or that mortgage, and equally natural if he is not charitable in his description of the conditions under which his debtors defaulted. The substitution of an imaginary world which is pleasant for a real world which is exasperating is an instinctive method of self-defence forbidden only to philosophers. But there is a point at which rational methods must take the place of the instinctive. We smile if we find an investor living in a fool's paradise, and insisting that when times improve and his debtors experience a change of heart he will get a hundred cents in the dollar. We are critical of a man who prejudices his chances of being paid for the pleasure of gibing at his debtors, or who continues to bemoan his losses when he might reduce them by courageous action. Our admiration, on the other hand, is generously accorded to the man who is quick to analyse his situation and to seize every opportunity of improving it, however unusual may be the methods to which he is compelled to resort.

To-day we find great nations in much the same position as the investor whose misfortunes have aroused our sympathy. Peoples which emerged from the war sixteen years ago, impoverished by the strain which they had undergone, were consoled by the assurance that they had just claims against other nations for compensation for some of the injuries which they had suffered, or for repayment of money which they had lent. They have found that the securities on which they relied are worth very little, and that there is every prospect that their own tax-payers will have

to meet the bill which the foreigner agreed to pay. Their exasperation is natural. It is natural that they should find a transient satisfaction in telling their story in such a way as to place all the blame on the foreigner who has defaulted. At times, too, they will persuade themselves that sooner or later payment can be obtained. Nations are even slower than individuals in analysing a situation in order to see what is the best that can be made of it. Yet the analysis is worth making.

Superficially, the situation is extremely bad. Not only have relatively rich countries refused to pay money which they admit that they owe, but their tax-payers have come to believe that they will never have to pay. It is as difficult to get tax-payers to shoulder a burden which they have been encouraged to drop as to get mutinous troops back to the trenches. On paper, however, the debts continue to exist. The inconvenience of this anomalous situation is very great. While, for instance, nothing is more desirable than the permanent stabilization of currencies in relation to one another, little can be accomplished so long as all measures must be taken in complete ignorance of the magnitude of the payments to be made by debtor countries to their creditors. Nor are restrictions on trade easier to remove, for even those agreements which tend to reduce trade to a barter basis by equalizing imports and exports must either allow for the debt payments or ignore them. While uncertainty exists, no lasting agreement can be made. These basic difficulties would exist if the utmost good-will prevailed between debtor and creditor countries. Unhappily, distrust and ill-will have arisen where confidence is desirable. Nations have judged one another harshly, and have reproached one another bitterly, with more than the usual excuse for bitterness and harshness. Common sense suggests that we should allow the controversy to sink into oblivion, and rely on time to repair the damage which has been done.

So great are the political difficulties in the way of positive action that it requires both courage and optimism to reject this counsel of despair, which our reason tells us would give us the worst of both worlds. For it would allow all prospect of collecting the debts to lapse, and would do nothing to dissipate the ill-will which exists. Those who are striving for better international relations have no excuse for failing in courage. They are fighting with their backs to the wall. And, curious as it may seem, there is some justification for optimism. The situation, if dispassionately analysed, presents some hopeful features. If we state the problem to be solved with complete frankness, we shall find that

it is not an impossible one, though the methods to be employed in its solution may be unusual. The best way of examining a novel method is to make a precise and definite suggestion, in the hope that it will prove its usefulness by inspiring someone to improve upon it, for it will have served its purpose if it shows that immense opportunities exist for those who have the courage to seize and the skill to exploit them.

The first hopeful feature of the situation is that the greatest creditor nation is the United States. Not only is the United States the richest nation in the world, but it is the nation most likely to look carefully before taking decisive action, and after thorough examination to act unhesitatingly.

The second hopeful feature is that there is some reason to believe that no serious statesman, whatever he may say in public, really thinks that his country can enrich itself by extorting payments from its neighbours. This is probably true in the United States as in other creditor countries; but it is also true that no American administration, whatever its members may believe in private, will incur the odium of bluntly informing the electorate that it proposes to abandon as uncollectible a large proportion of the war debts due to the United States. This reluctance is not to be regretted. At best, cancellation is not an inspiring policy. If, in the hour of victory, really valuable claims had been abandoned by a belligerent at the expense of its tax-payers, the gesture would have been grandiose, but the tax-payers would have been sure to resent it. If, on the other hand, only those claims were abandoned which trial and error over a period of sixteen years had proved to be uncollectible, cancellation might appear as a dingy pretence at altruism that would excite the mockery of the world.

A third hopeful feature is that a comouflaged remission of debts presents difficulties which are hardly less serious than those of direct remission. It is true that a bargain might be struck with an insolvent debtor by which a cession of over-valued territory, or a surrender of over-valued securities, or the granting of over-valued trade privileges might take the place of the promised gold. But such a bargain would have to be defended as a bargain. No credit could be claimed for intended generosity without annoying the American tax-payers, while the debtor would be almost certain to represent the bargain as oppressive. The political difficulties are even greater if a bargain is contemplated by which a debtor, in consideration of his release from an uncollectible debt, is required to surrender some of his sovereign rights by limiting the

amount which he may spend on armaments. A foreign Government, which must contend both at home and at Geneva that its armaments have never exceeded what is essential for its defence, is bound to insist on retaining its liberty of action. Yet the American electorate may reasonably be alarmed by the idea that in remitting debts it is enabling its debtors to engage in an armaments race in unseemly competition with their benefactors.

We are now in a position to state our problem. Is there any course open to creditors which avoids these political difficulties? Can the United States in particular, at this late date, achieve without enraging its tax-payers that show of generosity which is necessary to impress the imagination of the world? Can an offer be made by creditors which no debtor could refuse, without either unsettling all idea of international obligation, or appearing to put debtors in funds for increasing their armaments? Can a lead thus be given in constructive policies which will turn men's thoughts from war to peace? Can international good-will still be created out of a state of affairs from which so much ill-will has arisen?

The history of the Boxer indemnity which China undertook to pay to the Powers that had occupied Peking suggests a possibility which is worth exploring. The United States decided to refund to China an overcharge which had been made through neglecting to deduct from the cost of the American expedition the expenses which would have been incurred in any case for the maintenance of the American troops. As the Chinese Government was not trusted to spend the money wisely, conditions were attached to the refund to ensure its devotion to the cause of education. So striking was this act of probity that it passed as generosity. It constituted an example which had to be followed even when no overcharge had been made. Unpaid balances of the indemnity were remitted by the United States and other creditor Powers subject to appropriate conditions. These were real gifts, but such was the effect of seizing the psychological moment for action that it was the initial American refund which excited sincere and lasting gratitude.

This incident is very instructive. It suggests that if a debt is not remitted unconditionally, but the debtor is required to spend the money for stipulated purposes, no harm is done to the principle that international obligations must be honoured. It proves that the goodness of the purposes will inspire gratitude even if the propriety of making conditions to protect a people against its own Government might be open to question. It shows

that a simple and effective way of preventing money from being used for bad purposes is to insist that it shall be used for good purposes. Best of all, it is an example of a permanent contribution to international good-will arising from events which had occasioned great ill-will.

There would be no inherent impossibility in repeating this operation on an enormous scale, and applying it to the war debts owed by European countries to America. The wisdom of repeating it would depend on the probable consequences, and on the sacrifices (if any) which would have to be made. The technique of the operation would be to inform each debtor country that if it chose to set up within its own borders an endowment, with trustees independent of governmental control, it might count as part payment of its indebtedness to the United States whatever sums it transferred in its own currency to the trustees. Thus payment to the trustees would not involve any "transfer problem". Foreign currencies would not have to be used to buy dollars, or to buy gold, processes which result in subjecting the United States to the competition of countries with depreciated currencies, while the rising price of the dollar handicaps the American export trade. Looked at in another way, the proposed arrangement would preclude foreign countries from arguing that they were unable to pay because of the barriers which the United States had imposed on ultimate payment by means of such goods or services as they could provide.

The trustees would be required to invest the money which they received in such a way as to yield a permanent income. The debtor countries could facilitate this arrangement by transferring to the trustees perpetual bonds like *rentes* or consols, and thus reducing their annual payments to the interest on the capital sum now owed to the United States. While no country would willingly agree to make an annual payment in perpetuity to a foreign nation, because the payment would look like tribute, any country would welcome the idea of funding a large block of internal debt at a low rate of interest. In short, payment to the trustees would be far less burdensome than payment to the United States.

If in any debtor country the whole of the debt owed to the United States were transferred to trustees, the latter would have an enormous perpetual income at their disposal. The way in which they were directed to spend this income might well determine the main line of social development in the countries concerned. The United States could lay down its conditions. Conceivably

the money might be used as so much economic ballast. It might be accumulated in years of prosperity, and spent to provide employment, incomes and purchasing power in what might otherwise be years of depression. But the wisest policy might be to leave a wide freedom of choice to the trustees. They might be allowed to spend their income on any or all of a wide range of purposes of a philanthropic character. They might, for instance, come to the help of schools, libraries, universities or hospitals. They might finance research, whether in the physical or in the social sciences. They might contribute to the support of museums or art galleries. They might even engage in more ambitious enterprises, such as the provision of decent housing at low rentals, so long as adequate precautions were taken to prevent the funds from being used to take the place of expenditures now made by Governments. Thus the trustees might cover the ground which lies just outside the field of governmental expenditure to-day, and which private charity cannot be expected to reach. The peoples in the debtor countries would thus enjoy a "new deal" on lines laid down by the United States.

An even wider scope might be given to the endowments. The trustees might be allowed, or even required, to spend a part of their immense income for the benefit of the inhabitants of colonial territories. No modern industrial country has any difficulty in transferring goods and services to its dependencies beyond the seas. Such a transfer would be not unlike the transfer of munitions from America to Europe during the war. A "market" would be provided in which goods could be sold which could not be disposed of at home, and yet there could be no suspicion of exploitation or unequal trade. To extend a helping hand to less advanced peoples might, if one chose, be looked on as a suitable penance for any taint of war guilt.

Indeed the whole plan would involve using the unpaid balances, due for war material, in the service of humanity. The munitions which crossed the Atlantic during the war would be ultimately paid for by humanitarian enterprises in the debtor countries and their dependencies. In the terminology of the religion whose technique had been borrowed, swords would be beaten into ploughshares. Vast peaceful undertakings would arise as a permanent monument to American statesmanship. The war and its aftermath would have left behind them one achievement at least for which mankind need feel no shame. Credit for initiating this great work would remain for all time American.

The indirect effects would be important. Other creditor countries would be practically compelled to follow the example

set them, as they did in the case of the Boxer indemnity. Great Britain, for instance, after the generous language of the Balfour Note, could not well receive the benefit of a huge American endowment built up from the debt which she had contracted towards the United States, and then call on her debtors to pay their debts to her. If she elected to follow the example of America, we should find, side by side with the American endowment in France and Italy, British endowments similar in aim and purpose. And a British endowment might be set up in Germany.

A further indirect effect would be to place a brake on competitive armament. Each of the debtor countries would be compelled to tax its citizens, who, we must remember, are not being taxed at present for the service of their debt to the United States, and who do not expect ever to be taxed for such a purpose. Thus payment in full of the cost of the last war would be secured priority over preparation for another. There could be no question of default, for no great western nation, whether ruled by a popular parliament or by a popular dictator, could risk the political upheaval that would follow any attempt to withdraw funds from social enterprises whose benefactions touched at every point the ordinary lives of the common people. A way would thus have been found of creating strong vested interests which would oppose the repudiation of debt for the sake of armament. This would be peculiarly important because, as a result of the new taxation, the cost of the present level of armament would be felt more severely than before. There would be a disposition to seek some relief from the burden, especially at a time when the people in each debtor country were coming, however reluctantly, to regard their creditors as benefactors. This would be the psychological moment for America to press proposals for universal reduction in military budgets. These proposals would come from the country which had by its bold generosity secured a position of moral leadership, and from the country best able to stand the strain of competition if it had to do so. If such substantial reduction were effected in the expenditure on armaments in the debtor countries that they could support the new endowments on the old scale of taxation, while at the same time the United States was enabled to reduce its expenditure on armaments so greatly as to be able to continue to pay interest on its war loans without an increase in taxation, the whole arrangement might be fairly considered as self-liquidating.

However, we must dismiss this optimistic conjecture from our minds when we return to count the cost which the United States would have to be prepared to incur if it assigned its war credits

to the service of humanity. Nominally this cost would be the total amount of the debts, with accumulated interest. Actually, the cost would be that part of these debts which is collectible. If this part is zero, then the cost would be zero. If ten per cent of the total debt can be collected, then the cost would be ten per cent. While the cost is thus indeterminate within wide limits, one must be very sanguine to think as much as twenty-five per cent of the debts collectible. How much is collectible depends on the commercial policy of the United States, and on the maintenance of conditions conducive to the debtor's will to pay.

The loss, whatever its amount may be, is a real loss, but it is not a net loss. Some set-off must be allowed for freeing the export trade of the United States from the burden of the war debts; for in so far as these debts are paid, America becomes entitled to receive foreign goods and services without paying for them, and American exporters find it correspondingly difficult to find markets with purchasers who have American dollars at their command. Any trade arrangements made between the United States and a debtor country would have to take account of the debts which were to be paid by providing an opportunity for an excess of imports (direct or indirect) into the United States, while any trade agreement made with a country which was not a debtor might, unless it were sympathetically drafted, curtail the debtors' ability to pay by indirect trade.

There are other set-offs which must be made, but it is hard to place a monetary valuation on intangible advantages. The goodwill of the world and a position of moral leadership could, as we have seen, hardly be obtained by a mere remission of the debts. Still less could they be obtained by a remission of that fraction of the debts which could not be collected. But they could be obtained by converting the debts into a permanent source of human welfare. Then, too, there would be some satisfaction in "calling the bluff" of foreign statesmen who have professed their willingness to pay in their own currency when it appeared impossible that they should be called on to do so. They would be compelled to profess the utmost gratitude for an action which obliged them to offer in their own country, perhaps much against their will, a new deal on the American plan.

If these advantages, tangible and intangible, can be had almost for nothing, by writing off bad debts, an operation which brings the prestige of an apparent sacrifice without the cost of a real sacrifice should seem good business even to the most exacting of citizens. But these exacting citizens whom we have evoked

may protest that if only a bare ten per cent of the total debt is collectible, still ten per cent is something, and something is greater than nothing.

Two answers are possible to this emphatic truism. The first is that the plan which has been proposed does not necessarily require one hundred per cent of the debts for its execution. America might collect that part of the debt which she believes to be collectible, and assign the balance to the endowments. Indeed, so flexible is the plan, that it might be tried out experimentally on a small scale by setting up endowments in the debtor countries entitled to receive the instalments which are overdue or which fall due within the next few years.

The second answer is that while a compromise plan combining partial collection with the assignment of the unpaid balances to endowments is quite practicable, it would be a short-sighted policy. It would, of course, be thoroughly justified if it was all that was politically possible; all, that is, which the American electorate would be prepared to accept. But it would involve the renunciation of important intangible advantages for a small pecuniary gain. Such good-will as could be created by employing the uncollectible portion of the debts for philanthropic purposes would be something for nothing. But its quality, like that of most cheap things, would be open to suspicion. It would be feeble response in comparison with that which might be obtained by giving up the chance of retrieving a small percentage of the debts. In cases where the psychological impression is all-important, it seems wisest to back the main chance. The prize for success is so great that a small addition to the stake is negligible if the chances of success are materially improved.

For the prize is immense. Success would lend lustre to a generation whose contribution to human welfare has as yet been mediocre. It would add to the history of mankind a great deed, worthy to take its place side by side with such landmarks as the purchase of the freedom of the slaves in the British colonies with money provided by the British tax-payers, or with the more drastic measures of emancipation followed in the United States where the milder common sense method was politically impossible.

Are mild common sense measures still politically impossible in the United States? In the proposals which we have considered few, if any, vested interests would be adversely affected. The main difficulty is that the apparent sacrifice to the American taxpayer would greatly exceed the real sacrifice, and that the poli-

ticians who would have to suggest the sacrifice could not be outspoken in showing how small it really was, without seeming to contradict their own earlier statements. This is a very real difficulty, which can be overcome only by vigorous statesmanship deserving of the sort of admiration which we were ready to give to the investor who could banish exasperation and by cutting his losses retrieve his imperilled position.

Music, when soft voices die,
 Vibrates in the memory;
 Odours, when sweet violets sicken,
 Live within the sense they quicken.

Rose leaves, when the rose is dead,
 Are heaped for the beloved's bed;
 And so thy thoughts, when thou art gone,
 Love itself shall slumber on.

Shelley.

*Ut caros procul hinc saepe animo modos
 Audimus memori blanda canentium;
 Delectant violae quos semel, intimo
 Sensu semper inest odor;*

*Floresque ut pereunt puniceae rosae
 Et grato foliis dant iuveni torum,
 Sic cum fors adimet te, requiem Venus
 In dictis capiet tuis.*

P L.