

The Economic Club of New York

60th Meeting

The Genoa Conference

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Introduction

Mr. Battle

The subject of this evening is the Genoa Conference, a most interesting and opportune subject. Before we proceed to its discussion, I wish to present for a few words of greeting one of our guests of honor tonight, the Corporation Counsel of the City of New York, the heard of the largest law office in the volume of business in this country and I have no doubt, in the world, the man who has charge of the legal business of the greatest municipality beneath the Heavens. I take pleasure in presenting John P. O'Brien, Corporation Counsel. (Applause)

John P. O'Brien

Corporation Counsel of the City of New York

Ladies, Mr. Chairman and gentlemen: In justice to myself, I want to say that the dinner was pretty well on its way when they broke the news to me that I was to serve as a cocktail, a cocktail such as we had before the Volstead days, I am sure you will say, after I get through with my two of three minutes' talk to you.

All I can say by way of greeting or of introduction of myself is that I am glad to be here. I am glad particularly for the reason, coming from the great law department of the City, which has every day, surging in and out a tremendous law business and which is receiving every day from

the courts decisions favorable and unfavorable, that I am glad to be here with an organization and its friends and its guests that stand for open discussion, that is devoted to the principle of the idea, that every question has two sides, and that every good decent American ought to be glad at all times in matters that affect its commerce, that affect its future, that affect the great public principles of public life and public discussion, every American should be broad-minded enough to feel that there are two sides to every question and that there ought to be open discussions. I am glad to be here in a forum that stands for two sides to every question and that offers a place to men that have distinctly opposite views on great matters of public moment, to come here and discuss them. I hope, Mr. Chairman, and gentlemen, that the symposium of the evening will be a repetition of the many splendid discussions that his organization has had at its regular meetings held in its history. (Applause)

MR. BATTLE: I have said that the subject of the discussion for the evening was The Genoa Conference, the impending conference at Genoa. It is a most opportune and, indeed, a most necessary and essential conference. There never was a time in the history of the world when it was so vitally essential that the nations of the earth should assemble together and take counsel upon the economic conditions of the world, and the eyes of the world are fixed upon this coming meeting at Genoa, and the ears of the world are open to hear its message. This is a most appropriate and taking time for such an occasion, for such a gathering as that which is about to take place at Genoa.

I remember in that eventful month of August, 1914, when the Great War was just breaking upon the vision of humanity, that I was down in my native State of North Carolina and was talking there to an old colored friend of mine and I asked him what he thought of the European war. He had a vague notion of what the European war was or, indeed, where Europe was, but he wanted to give a courteous answer with the courtesy of his race and also with their quick wit, and he looked about him, it was a pretty sunshiny day, and said, “Well, Boss, they sure has got a fine day for it,” (Laughter) and so this Genoa Conference surely has a fine day for its deliberation and the world awaits with the greatest interest, and I may say, with the greatest anxiety, for the outcome.

It is, therefore, a most germane and interesting topic that we have to discuss tonight, and we are fortunate in having four speakers, who according to the rules of the Economic Club, will each speak for not more than half an hour, and each one of whom is an expert upon the subject, and not only knows but is able to expound and express his knowledge. The first speaker will be Mr. Alleyne Ireland, who is a consultant on Government, who has devoted his life to the study of governmental problems, the author of Democracy and the Human Equation,” the author of far eastern topics, a gentlemen whose utterances upon this subject will carry with it the weight of a man who knows where of he speaks and is able to express his knowledge. I take great pleasure in presenting to you, therefore, as the first speaker, Mr. Ireland. (Applause)

First Speaker

Mr. Alleyne Ireland

Government Consultant and Author

Mr. Chairman and gentlemen: As your presiding officer has announced, the discussion this evening is to center around the Genoa Conference; and what I have to say must therefore be regarded in the light of a preface to the addresses which will be delivered by the distinguished and learned gentlemen who are to follow me. My object is to paint in a background against which the Genoa Conference, with its multitude of specific issues will stand out in a bolder relief than if they were assembled in front of a plain drop curtain.

It has become a commonplace to attribute to the Great War the principal part in producing the extraordinary conditions of distress and confusion in which the whole world is plunged. I am inclined to think that too much emphasis has been laid upon this particular phenomenon. If you will carry your minds back to a period beginning about the winter of 1913-14 you will recall that statesmen the world over were confronted with internal problems which were causing them the gravest anxiety. In England the forces of organized labor were already gathering for what was clearly intended to be a challenge to the parliamentary system of Government. Across the Channel Ireland was in a state of bordering on civil war. In Spain, in Italy, in France, in Australia -- to go no further -- abundant evidence was being forced from day to day on the public attention to indicate a rising tide of dissatisfaction with the general economic, political and social

conditions under which everybody, high and low, was living. In the United States, where from the generous nature of its institutions, and from the highly favorable surroundings in which they flourished, one might have hoped to observe a more tranquil state of society, there were appearing symptoms closely similar to those which were causing so much alarm in the old world. In the winter of 1913-14 unemployment in the great cities had reached a serious volume; and a most disturbing feature of this unemployment was that the attention of serious students was concentrated rather upon what it might lead to with reference to the stability of American institutions, than upon the measures which might be taken to relieve the immediate distress.

I will not enlarge upon matters which are within the knowledge of everyone present. I will content myself with remarking that in the months immediately preceding the outbreak of the War there were to be observed in all countries an increasing discontent with government, an increasing activity amongst the enemies of constitutional Government, increasing evidences of confusion and pessimism amongst its friends, and an increasing tension between clan and class of the population.

It seems to me that in face of these circumstances we are justified in regarding the war as an explosion in the field of international affairs, attributable to causes which had the war not come when it did, would, before long, have occurred in the field of domestic affairs. Indeed it may be questioned whether, the problems involved in a great war, and the consequences to be expected from anything short of utter defeat, were not less dreaded by many of the statesmen of Europe,

than a continuance of the nerve-racking suspense under which national Governments were operating.

Whether or not this consideration played an important part in precipitating the conflict, we are now face to face with the fact that the problems of conducting war have passed, and that we are not confronted with what are and always have been more difficult problems of conducting peace, or, as some satirist has described our efforts, the problems of waging peace.

It is true that the Great War and what I may call the Little Peace had a common origin in the utter confusion into which human society had been plunged by the operation of modern political systems; it is not less true that the pace of our social and political disintegration has been greatly accelerated by the economic consequences of the war.

As the time at my disposal is very brief in relation to the magnitude of the issues I am to discuss, I will go at once to the heart of my subject.

I am convinced that the Genoa Conference, to whatever specific questions of an international character it may address its labors, can achieve nothing in the nature of affording stability to a distraught world unless it takes cognizance of the profound distrust with which a growing majority of mankind regard the operation of their political institutions.

About the extent of the present discontent with government opinions may differ. My own view is that it is very serious and very widely spread. For this view I have the support of the late Lord Bryce. Writing to me last summer with reference to a small volume on Democracy which I had published in the spring, and in which I had made a reference to this matter, he said: “Your volume confirms me in the belief that a good deal of discontent exists in the United States with the system of Government existing there. But unfortunately there is reason to believe that at least as much discontent exists in all the other great countries of the world, including England, France, Italy and Spain. Indeed the only country really satisfied with its government seems to be Switzerland.”

A friend of mine who heard from Lord Bryce shortly before his death tells me that Lord Bryce had at that time reached the conclusion that not even Switzerland could be made an exception to the general rule.

When we attempt to analyze the causes of discontent with government we must first ask what people expect from government, for discontent with government arises only in respect of failure of government to give someone what he has expected that government will give him.

Upon this point I may remark, first, that not only is there no common agreement as to what government should do for the people, but it is very much to be doubted whether any two people could be found who would agree with each other as to what as to what the proper aims of

government should be. Speaking of the vast majority of people, I think it would not be unjust to say that they expect from government what they could only get from a miracle, and then swear by this and that the miracle must be a statutory miracle.

Down to about the middle of the nineteenth century the utmost that any people demanded from government was that it should protect them in their lives and properties, and, for the rest, leave them alone to work out their own social salvation. Under this conception of the functions of Government great hardships were suffered by the less intelligent, the less efficient, the less industrious in every country; but a great incentive was furnished to effort of all kinds, since the fruits of these efforts, when they were successful, were guaranteed to those who had made them, in the form of wealth, social station and above all in the form of that sense of secure possession which is the foundation of contentment.

But the conception of the functions of government has undergone a complete transformation. If we are to judge by the amount and by the character of the legislation which twentieth century governments produce in such luxuriant profusion; it seems as though the task now assigned to government is to insure that the battle shall go to the weak, and the race to the slow; that the fruits of skill, of industry, of prudence shall be conferred by law upon those who are neither skillful, industrious, nor prudent; that idleness shall share in the harvest of toil, that extravagance shall spend the savings of thrift, and that incompetence shall be endowed with efficiency's estate.

The gross immorality of this situation people may refuse to recognize; what they will be compelled to recognize, by the irresistible logic of events, are the disastrous consequences which cannot fail to ensue when the more stable, the more competent, the more cultured elements in every rank of society become finally convinced that their character, their talents, and their possessions are to be ruthlessly exploited in the interest of the inferior type by which they are surrounded.

The task of equalizing the unequal has been assigned to politics. The attempt cannot, of course, attain a final success; but the effort to carry it out may well wreck civilization. The only hope I can see of averting this catastrophe lies in the direction of bringing the more intelligent men and women of all classes to a much clearer understanding than they now have of the essential elements, and of the present state of government. Whatever may happen in the near future, I am convinced that the destinies of the world will, sooner or later, fall under the guidance of whatever large group of people get farthest away from the practice of working government as a religion in the interest of running government as a graft, and pin themselves down to the basic facts of man's life on this planet, that is to say, to the fundamental truths of biology and economics.

I will deal briefly with two popular, I might almost say, universal misconceptions about government to which a very large share of the present delinquency of government may be attributed.

The first of these misconceptions has to do with the real nature of government. Very few people are aware of the profound difference which exists between the two elements of which government is composed; that is to say, between the power elements and the service elements. No useful understanding of government can be attained until one has realized that all existing governments have assumed their present form in response to the popular reaction to a single problem, that of the location of power in the State.

Thus, in the English Revolution of 1688 the problem was to take away from a kingly house which claimed to derive its power from God and to transfer it to another dynasty which was content to derive it from the Act of Settlement, in other words, to take power from the King and place it with Parliament. In the French Revolution the problem was to take power from the King and his court and place it with the people. The problem of the American War of Independence was to take power away from King George, his ministers and Parliament, and place it on this side of the Atlantic with the States which subsequently formed the Union. In the Revolutions of the Spanish Colonies in the early part of the nineteenth century, the problem was to take power from the King of Spain and place it with the local governments of the Spanish American Republics. At the time these revolutions occurred government was envisaged as something which did undesirable things to you; there was no conception whatever in the public mind of any country that Government was a thing which was to do desirable things for you. The indictment of George III in the American Declaration of Independence does not contain a single word from which it can be inferred that the colonists had expected King George to do things for them and

that he had not done them; every charge made against him is that there was something that he had done to the colonists which he should not have done.

Since all democratic constitutions were devised for the express purpose of making governmental action against the rights of citizens difficult and hazardous, they are all constructed in the form of a brake; and they represent a relationship in which the people are the possessors of certain rights and immunities of which governments are the guardian.

But the moment government adds to its appointed role of guardian of the people's rights against the encroachment of power the new role of agent of the people's purposes, it is called on to deal not only with problems of power, but also with problems of service. It becomes, in fact a great service organization.

Now, modern Governments are all equipped to deal with problems of power. The mechanism consists of popularly elected legislatures, chief executives, and supreme courts which have the final word as to whether legislation is or is not constitutional -- in other words, a mechanism of checks and balances.

But moderns Governments are hardly equipped at all in respect of the multifarious services they are now called upon to render to the public. These services involve, if they are to be rendered economically and efficiently, the widest possible range of scientific knowledge, and the highest

grade of technical skill. That is to say, they must be planned by men of the finest and most informed intelligence, and executed by trained specialists.

This brings me to the second great misconception about government, namely, that the vast majority of people make no distinction between the right to receive the services which government renders to its citizens and the right to take part in deciding what these services shall be, and the right to take part in rendering them.

It should need no argument to prove that although, viewed from this standpoint of their common citizenship, all citizens are equally entitled to the services which government performs, they are, viewed from a standpoint of the very marked difference in their character and ability, by no means equally entitled to perform these services, or equally qualified to determine their nature, scope and method.

A simple analogy presents itself. Two men are in a hospital. One of them is a patient lying on a bed. The other is a surgeon standing by his side. Now, in respect of a right to have a diseased appendix removed these two men are equal; but in respect of any right the one has to remove the other's appendix they are obviously unequal. Yet government, or at least, a very large proportion of what we understand to be government, is conducted as if these two rights were identical and were universally valid in respect of every member of the body politic.

It is this misconception which has give one of the States of the Union a stonemason as its chief statistical expert, which has give a fair-sized city an undertake as its principal public health officer, and which, according to an investigation recently made by Professor Allen Johnson of Yale, has give some of the Stat Legislatures a membership of which less that 50% have had as much as a high school education.

Although government is not equipped to deal with more than a very small proposition of the tasks which it has assumed, it is extending its interference into a thousand matters which used formerly to be considered wholly outside the scope of official action. It has come to this that government is now the judge, the jury, the witness and the executioner of its citizens not only in respect of such of their actions as are affected with a public quality, but even in respect of their personal tastes, habits and opinions.

It is this pervasion of the whole extent of our daily life by the agents of Government -- by those who make law, by those who administer law, by those who punish its infraction, by this vast army of legislators, commissioners, agents, magistrates, policemen, secret service agents, inspectors, and investigators -- it is this which makes it imperative, if we are not be governed to our total destruction, that the omnipresent activity of Government should be guided by the light of scientific knowledge, and conducted through the instrumentality of a scientific method

If those who believe in Constitutional Government do not do something, and do it before very long, to make its performance come closer to its promise, nothing seems more likely to happen than that the mass of people will turn away from it in disgust and adopt some other system, however wild and ill-conceived.

Finally I may point out what I deem to be the weakest spot in the strategic situation of the Constitutionalists. All the groups whose aim it is to accomplish the overthrow of Constitutional Government have furnished their adherents not only with an emotion anchorage for their opinions, but also with an anchorage in the reason. They have prepared a propaganda of the most skillful kind, suited to every grade of intelligence. A street-sweeper, if he belongs to one of the extreme radical groups can spend an hour giving me the reasons for the faith which is in him. It is mostly bad reasoning based on ignorance; but it bears at least the appearance of reason. If I ask a street-sweeper of a constitutional habit of mind why he stands by the present order, all he can say to me is “My Country ‘tis of Thee”, or “God Save the King.”

If the Constitutionalists continue to be content with a situation in which they are unorganized, uninformed and unfinanced, whilst their enemies are organized, informed, and well supplied with money, the time is not far distant when nothing will be left for them to do except to write epitaphs for the tombstone of institutions which they professed to admire but which they refused to defend. (Great Applause and Mr. Ireland again takes the rostrum.)

MR. IRELAND: Gentlemen, I am so flattered by this, I feel I have touched a sore spot on everybody tonight. I have the permission of Mr. Ely to tell you one story. I will give it to you as a reward. It will be better than anything I have said and I think you will remember it longer.

It is the best story ever told about Prohibition. In England, the Prohibition Party is known as the Total Abstinence party and its opponent is known there as a Temperance Party, and in England, as I know, the Temperance Party is a real temperance party, and not a temperance party masquerading as such. Now, the head of the temperance movement was a very distinguished English Cleric by the name of Knox Little, and he hated the whole of the total Abstinence Party, because, as I might say it here, but I would not say it in England, he thought they were barking up the wrong tree, and gumming his game, because, he said, “You could not stop a man drinking, but you might stop a man drinking between drinks.”

Now, a certain lady, not knowing this, wrote to him once and said, “My dear Canon Knox Little: We are about to give a bazaar at the little town of Paddlington-on-the-Wyne and we are going to have a bar for the sale of total abstinence drinks, and you, dear Canon, be so kind as to select from the Bible a text suitable to go over a total abstinence bar,” and he wrote back and said, “My dear Madam: You have evidently honored me with this request without first informing yourself what my views are about total abstinence, but since you have asked me to select from the Bible a text suitable to go over a total abstinence bar, I suggest that you consult the 110th Psalm, the

fourth verse, where it says, “Here the wild asses quenched their thirst.” (Great Laughter & Applause)

MR. BATTLE: Mr. Ireland’s remarks are more than a suitable introductory. I think they have the additional virtue of being appropriate as an introduction to almost anything that might follow.

The next speaker is a member of the New York Bar, who has devoted much thought and study to this subject that we are considering here tonight and I have great pleasure in presenting to you Mr. John Foster Dulles. (Applause)

Second Speaker

John Foster Dulles

Mr. Chairman, and ladies and gentlemen: The development and discussion of the post war period have fully demonstrated that the prosperity of this nation is dependent upon the economic and financial revival of Europe. I think it is also apparent that this revival of Europe involves, among other things, promptly fixing the German indemnity at a figure within Germany’s capacity to pay, a diminution of expenditure for military establishments, and a general balancing of budgets by the former belligerent countries. I do not intend tonight to discuss in detail just why these reforms are necessary or just how to prosperity of this country is dependent upon their accomplishment. I propose to assume that you agree with me on these fundamental points and

what I shall primarily consider are the obstacles in the way of attainment of these desire objectives.

In particular, I wish to discuss the attitude of France, as it is France which appears to be the principal obstacle. It was France which, at Washington, declined to permit the conference to deal with limitation of land armament, and whose attitude with respect to subsidiary naval craft rendered impossible a complete settlement of naval problems. It is France which since the Armistice has held back from putting the German indemnity on a practical business basis. It is France which, by so doing, must assume a large measure of responsibility for unbalanced budgets and continuing inflation. For Germany cannot balance her budget until reparation charges are fixed within her capacity, and France, in turn, will hardly balance her budget so long as she carries as an asset the full sums for which German is theoretically liable. These mythical milliards, once they appear as credit items on the Treasury books, are sure to be spent in anticipation by the practical politicians, just as the Allied debts to us would now be spent were it not for the courageous opposition of President Harding and Secretary Mellon.

Now, if France thus constitutes herself an obstacle to the attainment of results which are of tremendous importance to us, the intelligent procedure is to examine into the real causes of difference. We should do so in justice to ourselves, in order that we can best promote our own policy. We should do so in justice to France to whom we are so bound by ties of sentiment that

we should allow no difference to be appraised superficially or without exploring it fully to endeavor to find a basis for reconciliation of views.

In approaching this international difference, I trust that we can avoid two errors which commonly intrude themselves in such discussions. The first is the assumption that any difference between ourselves and a foreign nation is due to the inherent righteousness of our own cause and the inherent perverseness of our neighbor. Moral distinctions, though pleasing to those who draw them, are hard to sustain in fact, and I know of no historic reasons to justify our approaching these problems of international relations with the complacent assumption that we are party to a clashing of the forces of good and evil, and that solution is to be found in the moral regeneration of those who hold views contrary to our own. All nations are inherently selfish and we are no different from any other. We are more fortunate than many in that we are so situated as to natural wealth and geographic position that our own interest and advancement is quite apt to coincide with that of the rest of the world. This is particularly true in the field of economics which we are considering, and it is easy to fall into the illusion that our policy is dictated by altruistic motives. This view will not, however, stand the test of impartial scrutiny which, I am sure, will disclose that our differences with other nations are not to be expressed in terms of different moral standards.

Let us also avoid the error of assuming that the foreign policy which runs athwart our own is due to the personal views and idiosyncrasies of some foreign politician who may have temporarily

secured an ascendancy over his fellows. If this were true, particularly in dealing with a political situation as kaleidoscopic as the French, it would scarcely be worth our while to pause to study the points of difference as the presumptive cause thereof would have disappeared through another turn of the political wheel before we raised our eyes from the study upon which we were engaged.

The attitude of a great nation is not determined by the personalities of individual statesmen or politicians. The explanation of the position of France is not to be found in the mental processes of a Clemenceau or a Poincare. Such individuals are merely brought into emergency by great fundamental forces of which they will be the mouthpiece. Such individuals and their doings are but the ripples which show in which way vast forces are running. It is basic economic and political conditions which determine the broad lines of national policy. It is these we must study and with which we must deal.

If then we are to analyze the causes which have led France to adopt an attitude which has led unfriendly critics to call her “obstructive” and “militaristic” and which has rendered even her friends apologetic, I am sure we shall find them not in the faults of her statesmen or the evil disposition of her peoples, but in fundamental causes of an economic order.

The losses of the Great War fall roughly into two main categories, loss of life and loss of wealth. The dead cannot be recalled to life, but it is possible in some measure to relieve the frightful

burden of debt which has fallen upon all of the belligerents. I think it can fairly be said that the dominant force behind the policy of every belligerent nation is relief from taxes and a discharge of the terrific debts incurred to finance the war. The foreign policies of today are determined with primary regard to their bearing on finances.

Let us look at our own position. We are a nation of great natural wealth, producing wheat, cotton, copper and like products far in excess of our own needs. We have billions of dollars owing to us from European nations. Our financial relief requires Europe which shall be able to buy from us and even, perhaps, pay her debts to us. Therefore, our national policy dictated by our national self interest, calls for the economic rehabilitation of Europe. We become impatient of every wasteful expenditure, at every national policy not designed to place the countries of Europe in a better position to play their part in our own financial program. At the same time, we are wary of foreign "entanglements" lest in some way, instead of lightening our load, new burdens might be shifted upon our shoulders. Generally speaking, we want the rest of the world to grow richer -- so that we may get some of its wealth.

I doubt if there is anything particularly moral about our position. It is true that our program does involve an improvement in conditions in other nations, but our interest in this improvement is not so much altruistic as due to the fact that they are at once our customers and our debtors.

The situation of Great Britain is very similar. She emerged from the war with terrific financial losses, far greater than our own. As with us, her foreign policy centers on relief of her financial situation. While Great Britain has also allied debts owing to her which might conceivably be utilized to achieve the desired result, yet her greater knowledge and experience warns of the serious disadvantages of such abnormal international payments, which often injure the recipient more than the nation that pays. Great Britain must find her financial relief in ways which will not intensify the existing condition of unemployment which is now so serious that Englishmen compare it, and not without reason, to the devastated areas of France. Great Britain sees the solution of her financial difficulties to be in a general revival of world trade. Great Britain, by experience and equipment is ideally constituted to be the world's banker, insurer and carrier. Her industries, converting raw material into manufactured articles, will largely contribute to the goods moving in international trade. Thus a worldwide trade revival will permit Great Britain to take her toll at almost every point and, through her touching myriads of individual transactions; there will pour into her coffers a steady stream of wealth which is the best cure of her present financial ills.

The foreign policy of Great Britain and the United States thus seeks a common objective, namely, a revival of international trade. It is this objective which calls for fixing the German indemnity at a figure which will permit a revival of German prosperity and allow Germany to be a consumer and not merely a producer. It calls for balanced budgets as a step to stabilized exchange. It implies that wealth and energy shall be directed exclusively into commercial

channels rather than to the maintenance of political power resting on armies and navies. It is in the attainment of these results that we see financial relief for ourselves, and it is due to this selfish interest that attainment of these results has become a cardinal objective of our national policy.

If, now, we turn to France, we find certain striking similarities and certain striking differences in her position and that of the United States and of Great Britain. We have seen that it is financial considerations which primarily determine the foreign policies of these two nations. If this is so as to them, how much more is to be expected that the policy of France will be dictated by the state of her public finances. For the financial position of France is appalling. Recent estimates place the per capita indebtedness of France at \$1229 as compared to a similar indebtedness of the United State of \$226. While the varying currencies involved in such a calculation make any accurate comparison impracticable, it is nevertheless unquestioned that (aside form the possible reparation liabilities of Germany), France has to struggle with financial burdens more serious than any heretofore known, and incomparably greater than those which we ourselves have to face. That relief is not yet in sight is shown by the fact that France's debt is constantly growing. It has nearly doubled since the Armistice. The current budget shows a deficit of about nine billion francs -- about \$1,000,000,000 at current rates. This is without providing for interest on France's debt to the British and American government. While there has recently been a reduction of circulating currency, this reflects little real improvement as it is more than offset by increase of floating debt. What has occurred is that, during a period of business depression, people have

shifted from currency into Bons de la Défense Nationale, which have many of the qualities of interest bearing currency and of which there are approximately 100 billion francs now in circulation.

It is little wonder, then that the politics of France revolve about her finances and that France will go as her financial needs propel her. It is not to her discredit that this is so. The same is true of Great Britain and the United States, with far less reason.

But if we find that France, Great Britain and the United States are all dominated by considerations of public finance, we unfortunately do not find that they will all three attain financial salvation by the same road. Great Britain and the United States expect to derive wealth from a worldwide trade revival. France, through no fault of her own, has little to gain from such a revival.

France, unlike the United States, has no great national wealth to export. Unlike England, she is not a nation of shippers and traders. She is not even a primarily industrial nation. She is a nation largely self-contained economically, not dependent upon essential imports, and composed of small land owners, peasants who live thriftily and frugally from the proceeds of their own farms and who know little and care less about international trade and finance.

Worldwide trade revival thus means little to France. It will not solve her financial problems. Therefore, France is relatively indifferent to it, as we would be under like circumstances. But she is driven by imperative necessity of finding some solution. What will it be? No one can know in detail, but its general character can readily be forecast. France will seek a political as distinct from a commercial solution of her financial problem. The United States and Great Britain have approached their own problems from a commercial aspect because we are commercial peoples and have great commercial assets. France's assets are primarily political. Add to this the fact that more than in the case of any other nation, France's debits and credits are inter-governmental, i.e., political, in character and you have a circumstances which will inevitably force France to seek a political solution. Consider the fact that France owes to the United States and to the British Governments an aggregate of about \$5,000,000,000. There is owing to her by Russia and the lesser allies (Poland, Czechoslovakia, etc.) in repayment of war loans about \$1,600,000,000. Pre-war obligations issued or guaranteed by the Russian and Turkish Governments and owned by French nationals represent perhaps \$2,000,000,000 in addition. If we put in the sums owing to her from Germany at say \$10,000,000,000, which is less than the amount actually owed, but which sum perhaps Germany can pay, we have a grand total of \$18,600,000,000. It is upon a successful adjustment of these items that the financial future of France depends. And the particularly significant fact, for our present purposes, is that all of these items represent matters as to which France must deal with foreign governments. Any settlements must be political in the nature.

If France must thus trust to political negotiations to save herself from financial ruin, it is inevitable that, pending the successful conclusion of these negotiations, France should seek to conserve all the elements of her position which may have political value.

She has many such elements of strength. She dominates the continent without a serious rival.

And let us note in passing, this position which she has attained results not from her own ambition and desire of aggrandizement, but from unexampled sacrifices made in a war of self defense. In consequence of this position, every nation with which she must sooner or later have financial negotiations requires and seeks the cooperation of France as essential to the attainment of its own particular objective.

The rulers of Russia seek recognition by France. There is nothing today to which they attach more importance. Turkey depends upon France to protect her from the excessive ambitions of Greece. Poland and Czechoslovakia feel that France is the ultimate guarantee of their independence and Poland is under an eternal debt of gratitude to France for the assistance which turned back the Bolshevik hordes at the gates of Warsaw. The fate of Germany is, of course, dependent primarily, upon the will of France. France has the power and legal right to keep Germany in servitude and chaos for generations. Germany has no more important goal than a friendly French foreign office. Great Britain cannot ignore the necessity of French cooperation in any program of economic revival. There can be no Genoa Conference without France. Even the United States

finds that it is a matter of considerable importance whether France does or does not concur in our foreign policies.

The fact that all of these nations want France to do something for them, constitutes the great strength of the French position which is so terribly weak in its financial aspects. Can it legitimately be expected that France should wholly abandon her political assets without regard to her liabilities? It is natural and indeed proper that France should desire to retain these assets until she deals with her liabilities. Yet it is this attitude which is so often termed “obstructive.” We must in fairness remember that what is “obstructive” from one point of view may be “constructive” from another. From the viewpoint of France and her problems it would be foolhardy for her to ignore her own needs and lavish that strength which she has in smoothing the way for developments designed primarily to solve the financial problems of others. Great Britain and the United States and other commercial nations of the world have been exerting constant pressure upon France to cooperate in the accomplishment of their own particular programs, and France has gone a long way in such cooperation. There is not a Frenchman who will not point with mingled pride and bitterness to the fact that every conference since the Armistice has been a record of French renunciation. All of this has materially improved the position of other nations, but without thereby improving by one sou the position of the French treasury. This cannot however go on indefinitely. If France is to be expected unreservedly to throw her political strength into the accomplishment of a world program which will be constructive from the point of view of other nations, these other nations must themselves be

prepared to incorporate in that program features which will be constructive from the standpoint of France. Such features might involve support of France's claims for repayment by Russia, a priority against German indemnity in favor of the devastated regions, and a funding of France's debts to Great Britain and the United States at such interest rates and such maturities that the service on these obligations will not during France's period of reconstruction unduly drain her financial resources.

It is not my intention, however, to undertake a defense of the French position any more than I have sought to attack the French position. I have merely sought to make clear the fundamental cause of the differences which have arisen in the past and are bound to arise in the future between France on the one hand and Great Britain and the United States on the other. I think that all these differences will be found to flow from the fact that while the policy of each is dominated by financial considerations, France must seek her solutions in political arrangements as distinct from the ordinary processes of commerce which will serve to meet the needs of other nations. Pending, therefore, progress in the political settlements upon which France depends, we shall naturally find France tending to conserve the elements of her political strength rather than expending them lavishly to promote the objective of other nations.

We shall not always agree with France any more than France will always agree with us, but I trust that throughout it will be recognized that the differences are of economic rather than moral origin. I should hope above all that through common conference a general program might be

arrived at which would recognize the special position of each nation, and to which each could unreservedly pledge its support. (Great Applause)

MR. BATTLE: I know I can cheerfully say for myself and I am sure that I can say it at any rate for most of us here that Mr. Dulles has given the clearest, the most comprehensive and the most sympathetic exposition of the position of France that I have heard in a discussion of the subject.

The next speaker has come from Chicago to address us tonight and we owe him a great debt of gratitude for the trouble he has taken. He is Professor Harold G. Moulton, of the University of Chicago, the author of “America and the Balance Sheet of Europe,” a gentleman who has made a study of and devoted much time and attention to the matter upon which he is going to address you. I take pleasure in presenting Professor Moulton of the University of Chicago. (Applause)

Third Speaker

Professor Harold G. Moulton

University of Chicago

Mr. Chairman, Members of the Economic Club: The refusal of the United States Government to attend the economic and financial conference called to meet in Genoa early in April, I think it may be assumed, in no sense indicates a determination on our part to withdraw from participation in European affairs and to adhere to a policy of narrow isolation. The refusal is

rather based on the conviction that the Genoa conference will not get down to the brass tacks of the situation and that in consequence our participation at this time would be fruitless. It is apparently believed that it is better to state frankly the American view that there must be a change of heart and of policies in certain countries of Europe before it will be beneficial for us to sit at European council tables. It has been made clear, however, that when a new attitude shall have come to prevail abroad we shall be glad to cooperate in whole-hearted fashion in the solution of European and world problems. With this general position I find myself in hearty accord.

Such being the present status of affairs it is of the utmost importance that we avail ourselves of the opportunity afforded in the interval to inquire precisely what changes of heart and of policy must occur in Europe before we should participate in the general settlements which it is conceded must in the early future be made. At the same time we should utilize the interval in formulating an American policy with reference to the issues that are certain to arise. My purposes this evening is to direct attention to what I conceive to be the outstanding issues in each of these considerations.

The necessity of facing squarely the reparations issue is fundamental to any program of European reconstruction; and I am in full accord with the position taken by our Government that it should not have been excluded from the conference agenda. Thus far in the history of post-war conference, conclave, and diplomatic interchange, France has blocked every attempt to discuss the

reparations issue dispassionately, and has refused to allow common sense and economic fact to take precedence over hysteria and political exigency. It is high time that for the good of France herself some friendly government did some plain speaking on the matter of reparations. It is easy to sympathize with France; and one need not for a moment flatter himself that if he had experienced what the French have been through in these recent years he would not feel and act in much as they do. Nevertheless, the true friends of the French nation are those who counsel moderation in the place of extreme action, common sense in place of passion and a forward instead of a backward-looking policy.

With reference to the reparations issue, the fundamental dilemma involved has seldom been better stated than by Premier Lloyd George on January 28, 1921, six weeks before the allied armies marched into Germany and seized the industrial cities of the lower Rhine.

What I have put forward is an expression of the views of all the experts...Everyone wants gold, which Germany has not got; and they will not take German goods. Nations can only pay debts by gold, goods, services, or bills of exchange on nations which are its debtors.

The real difficulty ...is due to the difficulty of securing payment outside the limits of Germany. Germany could pay - pay easily - inside her own boundary, but she could not export her forests, railways of land across her own frontiers and make them over to the allies. Take the railways, for

example. Suppose the allies took possession of them and doubled the charges; they would be paid in paper marks which would be valueless directly they crossed the frontier.

The only way Germany could pay was by way of exports - that is, by difference between German imports and exports. If, however, German imports were too much restricted, the Germans would be unable to obtain food and raw materials necessary for their manufacturers. Some of Germany's principal markets -- Russia and central Europe -- were no longer purchasers, and if she exported too much to the allies, it meant the ruin of their industry and lack of employment for their people. Even in the case of neutrals, it was only possible generally to increase German exports by depriving our traders of their markets.

That this view had also come to be accepted by Premier Briand is evidenced from the following statement which he made before the French Chamber and Senate on the third of February, 1921: "We must not lose sight of the fact that in order to pay us Germany must every year create wealth abroad for herself by developing her exports and reducing her imports to strictly necessary things. She can only do that to the detriment of the commerce and industry of the Allies. That is a strange and regrettable consequence of facts."

The simple truth is that the allied nations are not willing to receive any great volume of reparation payments in the form of goods. The following statement of an American businessman as to the nature of the reparations dilemma is unquestionably to the point: "We believe Germany

should be forced to pay; we doubt whether she can pay; but if we find that she can pay, by jingo we won't let her."

If we are to grasp the full significance of the reparations dilemma, we must center our attention on the matter of German imports. The allies do not want Germany to curtail imports; on the contrary they want Germany to buy as much as possible. I know of no better method of setting forth the fundamental problem than by raising the following question. Which do the allies prefer -- to receive free say 3 billion marks worth of German goods annually or to have German purchases from them curtailed by 3 billions annually, this for the reason that 3 billions of German exports are required for reparations and cannot therefore be used in buying allied goods? This German importing aspect of the problem is almost universally overlooked; -- it is overlooked even by Heynes in his latest book. It is overlooked by all those economists who argue that the receipt of reparations would in the long run benefit the recipient. They assume that the creditors' exports would not be reduced. What the world needs I balanced international trade with emphasis. Any attempt to make all trade flow in one direction can only harm all concerned.

In this connection I may say that I think Mr. Dulles in his sincere effort to understand and appreciate the French viewpoint has gone a little further than the facts warrant. While it is true that France is more dominantly agricultural than other allied powers, and less vitally dependent upon international trade and commerce than is England, for example, it is not true, in my judgment, that France does not desire German imports. The fact is that France has all along

insisted that the hole in the west be kept open in order that French luxuries might be sold in Germany. It is true, further, that France is unwilling to allow Germany to gain control of Polish and eastern European markets. Witness the secret trade treaty consummated with Poland last year. Moreover, France counts heavily upon expanding exports to Great Britain, but if German markets are lost to Great Britain the latter will have to reduce her purchases from France. The difference between France and the other allies is only one of degree; it is not a difference in kind.

A word must be said with reference to the capacity of Germany to pay. It is now agreed by the financial experts of the Allied Governments, as well as by all students of the problem, that the true measure of a nation's ability to pay reparations or debts is the excess of exports over imports. Since the figures of German exports and imports are now available, there is not the slightest necessity for allied commissions to go to Berlin and make exhaustive studies of German capacity to pay. The truth is that the German imports are still substantially in excess of German exports.

The recent German payments have not, in fact, been made out of an excess of exports over imports; but out of the continued sale of German marks, some foreign credits, some gold, and some odds and ends of investments still possessed in various parts of the world. Moreover, some bills of exchange drawn against exports may at any give period also be commandeered for the purposes; but this makes it impossible for German importers to find the means of paying for commodities purchased abroad, thereby hampering import trade and reducing subsequent ability

to pay. All these sources afford but temporary means of payment. Since they come out of capital they steadily diminish Germany's productive capacity. In the very near future Germany will find it impossible to meet even the modified reparation demands for 31 million gold marks every 10 days.

If collateral evidence is needed to show what Germany could not possibly pay, even under favorable circumstances, more than a mere fraction of the amount stipulated in the impossible settlement of May 1921, it is available in the figures of British international trade and finance. In the excellent year 1920 Great Britain could have paid, even when utilizing her huge credits arising from banking and shipping services and interest on foreign investments, only 1/3 of the annual amount which Germany is expected to pay.

There is another angle to the reparations situation which I feel impelled to discuss briefly, namely the fiscal angle. It has been said repeatedly in the last few months that Germany could pay if she would only resort to sound fiscal methods. She must increase taxes, reduce expenditures, eliminate all subsidies, and in general put her financial house in order. Not until she does this, it is said, will we be convinced that Germany cannot pay. Today's papers moreover, announce that the allies are to insist that all manufacture of paper currency in Germany be summarily halted.

Two questions present themselves in connection with this program; first, is it possible for Germany to do the things required; and second, granted that it is possible; would it increase the excess of her exports over imports and thereby increase her capacity to pay reparations?

With reference to the first point, I can merely state that to balance the German budget would require something like a tripling of revenues and a halving of expenditures. Germany has made some efforts in this direction within recent weeks. The attempt to straighten out the railway situation led to a great railway strike, which was broken only when the government surrendered to most of the demands of labor. This week it is announced that the deficit will be increased 30 billions of marks in consequence of necessary increases in salaries of government employees to compensate for the rising cost of living. The attempt to eliminate subsidies on bread and other commodities will, in consequence of soaring prices, produce profound social unrest in Germany just as last autumn the attempt to eliminate the Austrian bread subsidy led to the looting and despoliation of the hotels of Vienna.

One would have more confidence in the ability of the allies to balance Germany's budget, if they had had more success in balancing their own. Even with full reparation receipts and no outlays on account of her own external debt France in 1921 would have had a deficit of at least 20 billion francs.

But the genuinely significant aspect of this problem is raised by the second question: Would an abolition of all German subsidies and a balancing of the German budget, increase German exports as compared with imports? The answer must be an unqualified negative -- so far as the early future is concerned.

The subsidizing of railroads in order to keep freight rates low, the subsidizing of food in order to keep wages low, the subsidizing of coal production and ship building in order to stimulate output; the sales of German marks abroad to provide means for purchasing raw materials -- all these financial expedients have tended to stimulate German exports. The abolition of them would -- at least for a considerable period of time -- greatly reduce Germany's capacity to pay. I hope I will not be misunderstood in this connection. German post-war financial methods have undoubtedly had disastrous consequences upon her financial system; and obviously enough Germany should make a desperate effort to balance her budget. My point is merely that we should recognize clearly that when Germany undertakes to get on without the drugs which have thus far stimulated both her domestic and foreign trade, her ability to pay reparations will be even less than now.

Meanwhile the pressure for reparation payments, together with the ordinal fiscal difficulties of Germany, is driving German currency values steadily downward.

What will happen to modern German industrial life if German currency goes the way of that of Austria and Russia? If the currency becomes worthless the government bonds issued in exchange for paper money must share a similar fate. What would be the economic result if several hundred billions of bonds and certificates of indebtedness and a hundred billions, or so, of currency should become utterly worthless? Would this mean starvation for millions of Germans, and political disintegration and bolshevism for the rest? No categorical answer can in the nature of things be given to such questions. That the industrial consequences of such an economic shock would be of unparalleled severity is not, however, to be questioned.

Some idea of the economic consequences of such a debacle may be gained if one considers that practically all of the collateral that is back of bank loans would be worthless; that the assets of savings banks and insurance companies -- representing the savings of German citizens -- would be wiped out; that the investments of the reserve and other funds of corporations would be destroyed; and that all private financial obligations of whatever sort would be automatically obsolete. The entire financial structure would collapse.

Land, factories, equipment, railways, etc., would, however, remain. And since these in a sense constitute the primary foundations of wealth production, it is not to be supposed that a financial cataclysm would result in a complete cessation of economic activity. Nevertheless, all of modern economic life is organized and controlled through the financial machinery. Business is conducted in the midst of a complex system of established prices and values. A collapse of the entire

financial mechanism would, therefore, result for a time at least, in little less than economic chaos.

I take little stock in the contention frequently heard that since in our own colonial days or in Revolutionary France in 1793 a fairly rapid recovery was made following a collapse of currency values, that the same thing would happen in the highly developed industrial and financial nations of today. These paper currency episodes of the past are not analogous, because they occurred under relatively primitive conditions -- with rural and household economy dominant. When finance went to pieces in colonial days nearly everyone could go on producing the foodstuffs required for subsistence and in making at home at least many of the things required for comfort and convenience. Those currency episodes occurred before the days of stock and bond investments, before the wage system was much developed, before the evolution of the highly complex financial and price system which now governs and controls nearly all business activity. The financial evolution of the last half century has created large classes dependent upon investments in stocks and bonds, savings banks, insurance companies, etc.; and huge urban populations dependent for their daily existence upon the smooth functioning of the delicate machinery of international finance and commerce. This renders the present situation fundamentally different from any that has hitherto existed in the world.

For another primary reason I place little reliance upon historical analogies. The increasing complexity of the world economic organization has been accompanied on the one hand by the

growth of political democracy and on the other by the evolution of organized groups of workers in the urban industrial centers to whom in most nations of Europe has passed the political balance of power. Can the innate common sense and economic wisdom of the masses be relied upon in a period of severe economic maladjustment to bring us safely through? It is at least a debatable question.

What now will be the results upon allied nations of a period of financial disintegration, acute social unrest, decreasing production and decreasing standards of living in Central Europe -- if such proves to be the outcome of the present drift? The answer may be best reached by considering first what the economic evolution of Germany during the forty years preceding the war meant economically to the rest of Europe.

Modern Germany -- the industrial Germany that was founded with the empire in the decade of the seventies -- is the economic pivot of continental Europe. The evolution of the vast financial and economic organization of Germany during the last quarter of the nineteenth century and the early years of the twentieth -- however disastrous the accompanying political developments -- was primarily responsible for the remarkable economic progress during this period in all continental Europe.

In the first place, the development of German industrialism alone made possible the phenomenal growth of population, within the confines of the empire -- from 40 millions in 1870 to 68

millions in 1914 -- a growth of population, moreover, that was accompanied by a steadily rising standard of living. What this increase of population and of purchasing power meant to neutral and allied nations cannot well be overemphasized. Before 1870, Germany was a poor agricultural nation, largely self-contained. Then, within a single generation Germany became a land of affluence, and a major purchaser of Italian, French, Belgian, Dutch, Scandinavian, British, and American exports. German industrial life was so organized that a large percentage of the raw materials required for her industries were imported; and she was also a large importer of finished commodities, particularly of luxuries produced by Italy, France, and Belgium. I emphasize the importance of German purchasing power again because it is almost always ignored by those who stress the export competition of Germany in the years before the war. As fast as Germany increased her exports she also increased her imports. It was just because German exports to world markets expanded that Germany became England's richest market. Both Germany and other industrial nations thrived because of specialized production and exchange. The international trade that developed between other nations and the puissant Germany of the generation before the war was mutually beneficial.

In the second place, the development of financial Germany was the principal factor in increasing population and productive efficiency throughout all of Europe east of the Rhine. Germany, with Austria, financed the major part of the economic development that occurred in eastern and southeastern Europe in the latter years before the war. The economic life of this vast territory radiated from the financial offices of Berlin, Hamburg, Frankfurt, and Vienna. One of the most

interesting chapters in the whole history of economic evolution is founding the remarkable union between German finance and German industry, both at home and in surrounding countries, that was developed in the heyday of the empire. We are not here concerned; let it be repeated, with the political consequences of this development. We are for the present interested only in its relation to the economic prosperity of Europe during the period when it flourished.

It was not alone through finance; moreover, that Germany organized, controlled, and developed the economic system of central Europe. German shipping and German commercial organization were almost as important. AS the geographical heart of the continent, Germany was peculiarly favored in her development of the shipping lines and commercial connections with which before the war she directed the commerce of nearly the whole of central and Eastern Europe to the borders of Asia.

To those who, still under the influence of war psychology, look for the re-establishment of European security and prosperity through the destruction of Germany, the answer is that such a process would inevitably spread its devastating effects throughout all Europe. It cannot be too strongly emphasized that the purchasing power of Germany, and through Germany the purchasing power of all central and eastern Europe, is essential not only to the prosperity of western Europe; one may almost say it is essential to the perpetuity of the industrial life of highly developed nations such as England.

One might as well argue that it would have not adverse influence on new England and the central west of the United States if the Middle Atlantic group of states, including the commercial and financial centers of New York and Philadelphia and the Pittsburgh industrial district were to disintegrate economically, as to contend that it will benefit the rest of Europe if German goes the way of Austria and the Balkans, not to mention Russia.

I may say in passing that it is simply because those financial writers who insist that a temporary or seasonal rise in allied exchanges denotes fundamental improvement in Europe commonly ignore the inevitable repercussions upon allied finances of German financial disintegration that I cannot share their well-meaning optimism. Europe is an economic unit, the nations inextricably bound together by the ties of finance and commerce. In the end they will all recover or deteriorate together.

If all Europe goes backward economically it is, moreover, idle to assume that the United States can escape prolonged industrial depression. The crux of our own industrial difficulties is now generally conceded to be the low prices of grain, cotton, etc., and resulting curtailment of the purchasing power of our farmers. We normally export from 25 to 30 % of our wheat, 50% of our cotton and over 50% of our copper. Foreign demand is thus of paramount importance in these basic lines. If Europe continues to retrogress our present industrial depression will inevitably be intensified.

I conclude therefore that until the reparations issue squarely faced and the economic pressure of Central Europe reduced, European economic rehabilitation will be impossible. I do not, however, follow far with those who contend that we should not participate in a European conference until every nation has stopped inflation, balanced its budget, reduced military expenditures and sets its financial house in order. That is like saying to a man struggling in the mire, "Get up and clean off your clothes and then we will see what we can do toward helping you up." The argument that self-help is the cure for Europe is sound only up to a point -- namely, to the point where it is possible of attainment. My studies of the European situation have convinced me that it is impossible for most nations to raise taxes much higher than they now are; or to reduce expenditures materially, so long as the whole international situation remains in chaos. Of course, they should be urged to do the best they can under the circumstances; but let no one be under the delusion that they can accomplish the impossible, either this year or next.

To return to the Genoa conference; the business depression in England has focused the thought of that country upon the crucial importance of Germany in the economic aspect of things; and it has led to an almost complete shift in the point of view in the matter of reparations. It is coming to be clearly recognized in Great Britain that her own industries are fundamentally dependent upon a prosperous Germany where before the war her richest markets were found; and that a thriving Germany is dependent upon the economic rehabilitation of all central and eastern Europe. Because France has not recognized, or at least, has not assented to this point of view, little can be accomplished at the Genoa conference in the way of European rehabilitation.

Meanwhile, what must the United States be doing to get ready for eventual participation in a European conference?

This time for the American people to determine the basic elements of our foreign policy is now. The European economic situation is critical; if the United States is to cooperate with Europe in any far-reaching program of reconstruction we have got to make up our minds soon what we stand for, what we think Europe must do, and what we are willing to contribute to the process of settlement. American delegates cannot function at any international conference unless they go there, if not with power to act, at least with something in the way of a formulated and expressed public opinion back of them.

In order to focus attention upon the primary issues I shall state, first, what I regard as the fundamental requirements of the European situation, and then inquire what we shall be asked to contribute toward the settlement to be affected.

The primary requirements are as follows:

(1) Balanced international trade must be restored by means of a thorough going modification of reparation and debt obligations and the elimination of the restrictive trade and tariff regulations that have been developed since the war.

(2) The gold standard must be restored. This involves a wholesale destruction or redemption of outstanding paper issues in many European countries, -- redemption at the ratio of a hundred, a thousand, or a million to one, depending on the degree of depreciation in the various countries. It also involves a substantial redistribution of the world's gold supply.

(3) Government budgets must be balanced. This requires rather than a great increase in taxation in already tax burdened countries-- a great decrease in expenditures. This can be accomplished only by the strictest economy in administration, by a reduction of interest rates on government debts, and by drastic reductions in military expenditures. When it is realized, for example, that the interest on the French debt is now about 13 billion francs; pensions 3.5 billions, and current military expenditures 8 billions; with total receipts from taxation around 17 or 18 billions, it will be appreciated that drastic curtailment of military expenditures is not too strong an expression.

What now is our part in this program? When we sit in at a European conference, we shall I think be asked the following questions:

(1) Will the United States cancel or reduce the European war debt in proportion as the allies cancel or reduce indemnity requirements?

Every protectionist will of course answer yes, in order to prevent the inundation of our markets with foreign wares and even believes in the desirability of maintaining and expanding our own exports will of course take the same stand. If logic prevails this issue will be early settled.

(2) Will the United States loan to Europe a substantial portion of her excess gold supply as a part of the process of restoring the gold standard there, and make such other loans as may be necessary for essential reconstruction purposes?

(3) If allies' armies are reduced will the United States join with Great Britain in guaranteeing security from a possible future German attack? If not, will the United States join in association of nations designed to preserve peace, as well as to administer the economic settlements that are attempted?

Time does not permit me to discuss these several issues -- these basic elements in our future foreign policy as it relates to Europe. It is enough for the moment to state them, to call them sharply to the attention of the American people as the primary issues about which through honest and intelligent discussion we must make up our minds this year. For let me repeat that it will be largely futile to send delegates to a future conference if the people of this country are unwilling to concede anything. At the moment our attitude is every bit as bad as that of France; and much less forgivable.

While I cannot discuss these various issues, I do, however, wish to emphasize one point in conclusion, namely, the absolute necessity of dealing with the problem as a unified whole. We have had so many panaceas since the war that it wearies one even to enumerate them; thrift, hard

work, foreign credits, Ter Meulin bonds, deflation, stabilized exchanges, etc. It is certainly high time that we recognized that each link in the chain of economic and political relations supports every other. Just as unbalanced trade has helped to depreciate the exchanges, and as the depreciated exchanges in turn have helped to unbalance trade; just as unbalanced budgets have served to inflate the currencies, and in turn as currency inflation has increased the budgetary difficulties; just as the granting of huge loans to Europe has thrown the economic balance of the world out of gear, and as the attempt of European nations to pay debts and indemnities further unsettles international trade and financial relations -- so also the return to international economic stability depends upon manifold factors. Stabilization of the foreign exchanges depends upon stabilization of domestic prices; stabilization of domestic prices depends upon controlling paper money issues; controlling paper money issues depends upon the balancing of budgets; and the balancing of budgets depends upon the reduction of armaments and upon economic prosperity -- and all depend upon effective international cooperation worked out through some kind of an association of nations -- in which both the former Central powers and Russia will have a place. In conclusion, I would urge that the truth about the economic plight of the world must be driven home to the masses on men and women everywhere. If we are to escape the cancerous decay which is now consuming the cell structure of society in a large portion of Europe and is already making its influence felt throughout the world, the facts must be disclosed, with nothing hidden, nothing perverted, nothing exaggerated. Everyone must be brought to realize that the world is vastly poorer than before the war, and that nations cannot continue to live beyond their means without wrecking the economic organization of society. They must be brought to understand that

against the forces of national disintegration there must be marshaled the forces of international cooperation. This is not a task for statesmen alone; it calls for the determined support of the pulpit, the press and the business interests of every land. (Applause)

MR BATTLE: Dr. Moulton has given us a very thoughtful and most interesting discussion of the great issues and questions which have to be determined at this Conference.

To express my personal view, I regret very much that this Government, that this Administration reached the decision of sending no delegates to this conference. It seemed to me that the attitude of our Government in that regard was very much that of a physician who, if he were asked to attend a consultation over a patient, replied that the patient was too sick to have a consultation, but when the patient got well, then we would attend.

I sincerely hope that Dr. Moulton's views will be borne out by the future and that we will attend any subsequent conference and do our part toward bringing about a stabilization of economic conditions throughout the world.

The next speaker, the last speaker, is a familiar figure at any gathering in New York. He is a prominent advocate, a member of the bar, who has long made a study of international finance and who, during the war, rendered very great service to this country in that particular field. He is

peculiarly qualified to speak on this subject, which he will illuminate with his talent as he does any subject which he discusses. I present Mr. Paul D. Cravath. (Great Applause)

Fourth Speaker

Paul D. Cravath

Mr. Chairman, ladies and gentlemen: I do not propose to discuss the Genoa Conference, whether our Government should have participated in the general conference, considering the time at which it was held, the limitations imposed in the agenda and many other considerations, for that is a political question, on which I do not venture to render an opinion. The thesis I shall try to support tonight is this: That there cannot be real progress toward the early restoration of the economic equilibrium of Europe without the cooperation of the United States and without the participation of our Government in an international conference with that end in view. (Applause)

You do not care to hear my opinion, it is not worth anything, and what I shall try to do very briefly is to discuss the problem with you, and what I shall say, I shall depend very largely on the premises that have already been given to you by Professor Moulton. Since he published his book, I have sat at his economic feet, and tonight I propose to place myself squarely on his economic head, because no head has devoted itself with such intelligence to the study of this problem as the head of Professor Moulton.

We cannot intelligently discuss the means that should be taken for the restoration of what we glibly call the economic equilibrium of Europe, without a clear understanding of what we mean by that term. We mean that balance of international economic relations, which in normal times, in the long run, year in and year out; enable each nation to balance its accounts with the rest of the world. The economic equilibrium of Europe, as it existed before the war, was the result of a century, of gradual development, growth and adjustment. What we may call the modern industrial economic period really began in its definite form at the end of the Franco-Prussian War, when Germany entered upon that remarkable career of rapid industrial and commercial development that eventually made her the center of the economic system of Europe and the rival of Great Britain in the trade of the world.

Now, this equilibrium brought about by the gradual working of most complex and intricate forces and influences. Each of the commercial nations of Europe or of the world, for that matter, adjusted itself to changing requirements, each in its own way, according to its needs and according to its own requirements. The process involved large shifts of population, the development of agriculture intensively in one nation, the comparative neglect of agriculture in another; industrial development, agricultural development there; great growth in population in one country, its curtailment in another, until finally each one of the commercial nations of Europe had achieved what I have called its economic equilibrium.

Now, we will understand what happened better if we take a few concrete illustrations. Take the case of Great Britain, the leading commercial nation of Europe, the leading international commercial nation of the world. Great Britain solved the problem of a growing population by sending many millions of her people during the past half century to the United States and to the British Colonies. She solved the problem of supporting and feeding and clothing a population more than double, probably treble the normal population that could have been supported by her limited territory, by diverting her ocean-carrying trade, by having more ships than all other nations put together, by using her own raw materials and importing raw materials, fabricating them in her factories and sending them to all parts of the world; by investments on a large scale in all parts of the world; by practically monopolizing the marine insurance of the world and by foreign investment and endeavor, to almost every conceivable form, with the result, she not only became the richest nation the world had ever known, but she became the greatest creditor nation the world had ever known prior to the war. The income from her foreign investments, which amounted to about 800 million dollars a year before the war, probably not far from that sum, was the most important item perhaps in balancing her trade balance with the world; this is, in overcoming her adverse trade balance based on visible exports and imports.

Turn to Germany. Germany had a somewhat different problem. She provided for her rapidly growing population, which, by the way, increased about 70% in the fifty years following the Franco-Prussian War, not with very large immigration to other parts of the world, but by turning Germany into a great factory. Germany was a poor country, poor agriculturally, not very rich in

natural resources, but the German Government, after the Franco-Prussian War, turned Germany into a great factory, in which German raw materials, to a greater extent imported materials and partly fabricated materials, were increased in value by the application of German labor and sent to all parts of the world, and thereby, Germany was able at the outbreak of the European War to support a population 10 or 15 millions greater than her nature resources would let her support. France had a different problem. She had no ambition for world trade. The ambitions of France were modest. The French want to be happy, contented, lead easy, comfortable lives. They solved the problem of an increasing population by deliberately curtailing the population. By keeping their population, France remained until the outbreak of the war practically a self-contained country, so far as food was concerned. Her exports were largely exports of luxuries, but a very important element in balancing France's trade with the rest of the world was the enormous amount expended within the boundaries of France by seekers for pleasure and comfort. Each year tens of millions and hundreds of millions of dollars were spent within the boundaries of France by pleasure-seekers and comfort-seekers from all parts of the world, more perhaps from the United States than from all other countries put together.

Italy had a still different problem. She was poor in natural resources; her production of food was not sufficient to support her population. She had no coal, little iron; she had a rapidly growing population. Now, how did she meet her problem? In the first place, in the half century preceding the war, she probably sent ten million immigrants to other parts of the world, North and South America chiefly. She developed her factories and became an important, although not a leading

industrial nation, she increased the productivity of her soil, her people were able to live at a very low standard of living, she engaged in foreign commerce and developed a respectable mercantile marine, and although 25 years ago her economic problem was almost impossible of solution, she solved her problem. I forgot to say that she was able to enlist foreign capital, she was able to make large loans of gold, whereby she stabilized her currency, until she finally solved what appeared to be an insoluble economic problem and at the outbreak of the war, she balanced her account with the rest of the world and her currency was practically at par, but there comes a most interesting adjustment, that her visible imports exceeded her visible exports by about a third, and that third was almost entirely made up year in and year out, from two sources, the expenditures of tourists in Italy and remittances from Italians from various parts of the world.

Well, now, thus through the century, more especially the last half of the century, by this process of gradual, of nice adjustment, each of the European nations succeeded in balancing the accounts with the rest of the world, and established this nicely adjusted international balance of trade, which was the foundation of the commercial life of Europe, and the international balances were so nicely adjusted before the war by these visible and invisible items which I have more crudely described, that the amount that had to be adjusted by exports of gold, or of other artificial means, were exceedingly small.

Take the case of Germany. Her visible adverse balance of trade for five years before the war was only about \$400,000 a year and that was more than made up in such invisible items as

expenditures by tourists, income from various investments, freights paid by foreigners to German ship owners. In the case of this country the visible balance of trade in our favor was only at the rate of \$350,000,000 a year, and I give these simply as illustrations, but these balances were readily adjusted, and when I say balances, I mean after considering what I call invisible items, were readily adjusted by shipments of gold, by temporary loans, by commercial credits, by the automatic flow of capital to the centers where it was most needed, and where the highest rates of interest are paid, and by the operation of the ordinary machinery of exchange, and then came the war, and what was worse than the war, so far as the economic balance of the world was concerned, the Treaty of Versailles. The framers of the treaty of Versailles seemed to have exhausted the resources of ingenuity in ignoring the economic needs of Europe, in completing the destruction of that delicate machine that I have crudely described, which the war had also badly damaged by temporary expedients of all kind. They forgot their political boundaries were in these countries; less important than economic boundaries, they forgot that the political balance of power was less important than the economic balance, and they, I say deliberately, they effectively, perhaps they did not realize what they were doing, they effectively smashed into smithereens this complicated economic machine that the war had already damaged.

Well, now, this destruction was aggravated, or the effect of this destruction was aggravated by one very important and very radical event, which we must all bear in mind, and that was the enormous, almost unthinkable shift of wealth, from Europe to America.

Now, prior to the war, we were classed as a debtor nation. The great creditor nations of the world were Great Britain, France and Germany. Well, now, what happened during the seven years which followed the outbreak of the war? Remember, I said a moment ago, that for the five years preceding the war, the average visible balance of trade in our favor was at the rate of about \$400,000,000 a year. In these seven years the aggregate balance of trade with the rest of the world, chiefly with Europe, in favor of this country, reached the colossal sum of \$20,000,000,000.

That is a cardinal fact that we should all bear in mind. Now, how as that covered? Well, we bought back several billions of our securities which Europe had accumulated during the decade prior to the war, when we had been a borrowing nation, probably to the extent of \$6,000,000,000. I am using crude cases, but they are sufficient for our present purpose. Then our Government loaned to European Governments, you have been told tonight, about \$10,000,000,000 more. Then, probably, there are outstanding several billions of private credits, ordinary commercial credits, which have been extended to Europe by our bankers and merchants, and exporters, since the war. The result is that Europe is now not collecting about \$500,000,000 a year, that she was collecting upon our securities before the war, but we have an annual claim against her upon the public and private credits of perhaps \$700,000,000 more, a claim which in a great measure we have not yet asserted, but if our friends at Washington should have their way and the European nations should be required to pay interest even upon the allied debts to us, our interest account against Europe would amount to about \$700,000,000 a year.

Now, add that \$700,000,000 to the \$500,000,000 I spoke of first and what is the record? That the balance sheet of Europe with our country had been changed during the seven years since the beginning of the war, by about \$1,200,000,000 a year.

That is a simple fact which you can all remember, and with that fact which you can all remember, and with that fact in your mind, remember that for about five years preceding the war, our total imports were only at the rate of about \$1,500,000,000 a year and our average favorable balance of trade was only about \$400,000,000 a year, and yet recognizing this departure from my argument, and yet recognizing that one nation can pay obligations to another in the long run only by exports, rather by the excess of exports over imports, there are people who seriously argue that Europe can pay us this \$700,000,000 a year of interest and something by way of reduction of principal notwithstanding this fact of \$1,200,000,000 a year in our account with the rest of the world.

Well, now, that brings us to, I have very crudely described the existing conditions, the complete destruction of what I call the economic equilibrium of Europe, that delicate machine that had been built up by the efforts of a century, by the complicated process which I have described, and no economist in this country doubts that the only way by which prosperity can be brought back to Europe and this country and in the civilized world generally will be by rebuilding that complex machine that had taken a century to create, and it must be the very same kind of a

machine that the war and the Treaty of Versailles destroyed. No one doubts that. You must get back to the same kind of machine that we had seven years ago.

I assume that if events take their course, without cooperative interferences, that in time this economic equilibrium may be restored, but it will take, God knows how long, decades, decades. It is impossible by the ordinary natural processes to create overnight or in a year or in a few years this destroyed machine that had taken a century to build. The mere fact that it is that kind of a machine, a machine that was built up by patience and infinitely complex adjustments, shows the difficulty of re-creating it today, but if we let nature take its course, if we let events work to their natural conclusion, God knows what will happen in the meantime. No one can picture the suffering, the loss of wealth, the destruction of happiness of people, the wholesale loss of life through starvation and privation, the shifting of millions and millions of population, that could only be supported under that system, and who can tell that the suffering and privation of such a process would involve, would not bring such discontent, such despair, that the very social system under which we live, might not be involved, and might not perish.

I do not think that anyone can paint in too dark colors the risks the world will run if we let events take their course and permit this machine to be re-created, not by cooperative help, but by the operation of the stern and harsh laws of political economy.

Well, now, if an attempt is to be made within reasonable promptness to re-create this machine, what must be done? Professor Moulton has told you, and all I can do is to repeat what he has already said. The European nations must accomplish three primary results, if the economic equilibrium is to be restored. They must balance their budgets, they must balance their trade with the rest of the world, and they must restore the gold standard. Those, to my mind, and I assume that no one will disagree, are the essential results that must be accomplished.

Well, now, to accomplish those results, a great many very definite things must be done by each Government concerned. I shall only mention a few of them. Each European nation must reduce expenditures, because, as Professor Moulton has told you, economists agree that most European nations have already approached, if not reached and perhaps some have exceeded the limit of bearable taxation. Therefore, it is a fair general proposition that the budgets of the European nations cannot be balanced except by a reduction of expenses.

Some reduction in expenses will be possible through the reduction of land and naval armament. Some progress has already been made in that direction as a result of the Washington conference, so far as naval armaments are concerned. So far as land armaments are concerned, the process has hardly begun. The standing armies of today are larger than they were before the war. Over three million soldiers fully armed and equipped soldiers are under arms in Europe today. That can be changed only by agreement. France won't radically reduce her armies until she has been

assured against German aggression. The Border States, Poland, Czechoslovakia, Romania, will not reduce their armies until the red army of Russia has been reduced, and so on down the line. Cooperation, agreement is absolutely essential to accomplish this essential step in the reduction of land armaments.

In the second place, there must be, to say the least, a postponing of the debts of Great Britain and the United States against the allies. I am putting it mildly, at least, a postponing and a very substantial postponing. France will not disband her armies without being guaranteed against German aggression. I have said we probably cannot join in that guarantee, but we can join France in a guarantee respecting the enforcement of these debts. Loans of gold are essential, to enable European nations to restore their currency or to begin the restoration of their currency to a gold standard, and loans must come from this country, the richest of all nations in gold, because about a third of the world's gold supply was taken over by the United States Treasurer when he was inducted into office yesterday.

A radical need, a radical step, or another radical step is the resumption of consumption. The trouble with the world today is reduced consumption. Our export trade cannot be revived, trade cannot move through the channels of commerce until the world begins consuming again on something like a normal basis, and Professor Moulton has already emphasized that, but many European nations are so badly demoralized that they cannot resume consumption on any considerable scale without the help of loans, without artificial aid, and that aid and those loans

cannot be extended on sufficient scale without the help of the United States, the richest of all nations, and finally, there must be again, as Professor Moulton has pointed out, a radical reformation in the reparations program, first, so that the German people have a chance to live and have a chance for their economic lives, and second, so that France and Belgium and Italy will stand a fair chance of getting some substantial payment on the reparations account.

We do not realize that when the armies of occupation have been paid for, practically nothing has thus far been paid in cash, at least, to France, by way of reparation, and again, any sound economist will tell you that until Germany has been given a chance to reorganize herself industrially and commercially, she will not be able to make substantial further payments.

A very prominent English banker, perhaps the most prominent of all, was asked, “What do you think is most needed to aid in the economic revival of Great Britain?” He answered very promptly to the surprise of his guests, “The economic revival of Germany,” applying a principle that Professor Moulton has given you, that the world cannot begin consuming, before the great producing nations, like Great Britain and the United States, can begin producing and exporting in anything like a pre-war scale.

Germany was the center, as I said a few moments ago, of the economic system of Europe. That center cannot be restored and I think all that goes to the restoration of that vital center, until the restoration program has been revised, so as not only to come within the ability of Germany to

pay, so that it will be within such moderate limit that the German people will be willing to pay, will be willing to undertake the gigantic task of organizing their production, economizing their imports, stimulating their exports, within permissible bounds, which will be the only means of making even maturity payments to the allies.

Well, now, I have wasted your time and mine if I have not made it perfectly plain that if immediate progress is to be made, early progress is to be made, toward the rebuilding of this destroyed economic machine, toward the restoration of the economic equilibrium of Europe, that it cannot be done without the help and cooperation of the United States, and without the United States Government taking part in a definite international conference to deal in a large way with the early solution of those problems.

When that conference should be held, upon what terms and where, I do not propose to say. That is a political question, on which I should hesitate to speak, but it must come, sooner or later, and the sooner the better, it seems to me, no serious student can doubt, and one reflection in conclusion, and that is this, the mere fact of European dependence on us for cooperation in solving her economic problem creates the greatest of our opportunities. Our needs are less than the needs of the European states. We would probably suffer less, although seriously, from a general economic debacle. That is to be feared. Our cooperation is needed on a larger scale, measured in money and in economic resources, than the needs of any other nation, but on the smallest scale of all, I should say, when measured in real sacrifice, and we are therefore, in a

position to say to our European friends, “You cannot ask us to make colossal contributions and sacrifices which your economic restoration involves, unless you are willing to go half way, or at least, to try your best to put your own economic house in order.”

Never in the history of this country, I should almost except the causes of the war, is the opportunity offered to this country to prevent suffering and create happiness greater than the opportunity which now confronts us. Never has our responsibilities been greater, and never has it been more difficult to apply, because the problems of peace are much more difficult to apply, because the problems of peace are much more difficult to deal with in a democracy than the problems of war. (Great Applause)

(END OF MEETING)