

The Economic Club of New York

69<sup>th</sup> Meeting

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The Dawes Report

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May 13, 1924

Hotel Astor  
New York City

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Introduction

William Church Osborn, Chairman

Gentlemen, this is the occasion of the Annual Meeting of the Economic Club, and the officers for the ensuing year are to be elected. I ask for the report of the Nominating committee.

MR. TIBBITTS: After careful deliberation your Committee respectfully nominates for your consideration the following candidates for the Offices of the Economic Club of New York, to be filled at election this evening:

President: Howard Elliott

Vice-Presidents: Ogden L. Mills; Walker D. Hines

Executive Committee: Lawrence F. Abbott; Louis Marshall; William Church Osborn; Charles A. Stone and Thomas J. Watson.

Respectfully submitted:

Elbridge L. Adams; J. Louis Schaefer; F.R. Tibbitts; H. B. Walbridge; T.J. Watson - Nominating Committee.

MR. OSBORN: Gentlemen, you have heard the report of the Committee. What is your pleasure?

A MEMBER: I move that the Secretary be instructed to cast one ballot in favor of the election of the candidates nominated.

MR. OSBORN: The polls are open. I hear a motion that the Secretary be instructed to cast 1 ballot for the gentlemen named in the report of the Nominating Committee. Are there any

nominations? If not, those in favor of the motion will signify by the usual sign. Those opposed, “no.”

The ticket is unanimously elected, (Laughter and Applause)

MR. ELY: the ballot is cast and the gentlemen are elected.

MR. OSBORN: The subject for discussion is the Dawes Report and the first speaker is a gentleman whose experience is not confined to this country, although he was Director-General of the Railroads; a lawyer of distinction and ability, who has served in Europe upon the Danube Waterways Commission, the Honorable Walker D. Hines. (Applause)

First Speaker

Honorable Walker D. Hines

Former Director-General of the Railroads

Gentlemen of the Economic Club, I am going to undertake to give you a summary of the Dawes Report, and I have no doubt the various aspects of the report will be discussed in greater detail by the speakers who follow me. I take it that many of you have read abstracts of the report in the newspapers and therefore, what I may say may be in large part already known to you.’

I do not think, however, that it will be amiss to attempt to set out what seem to me all the salient features of this report. While I do not want to adopt an attitude of indiscriminate praise, yet I feel I might as well say at the beginning that I have been profoundly impressed with the wisdom of this document, not merely because it has formulated a succession of principles which appear to be a long series of steps toward a just solution of this problem, but that in formulating these principles there has been accomplished an extraordinary exposition of the of the reasons why these principles have been adopted. So that it seems to me it carries an unusual degree of conviction as to the fairness of the Committee and as to the justice of the conclusions it has reached.

You probably have in mind that the appointment of the Committee had its inception, you might say, in the action of the Reparation Commission in May, 1921, in fixing the total amount of reparations to be demanded from Germany. That was done under the Peace Treaty, and the Reparations Commission decided that Germany should be required to pay by way of reparation for the damage done to the civilian peoples of the Allied countries and their property 132,000,000,000 gold marks, with certain deductions and additions.

As evidence of this obligation Germany was to issue First Mortgage Bond for 12,000,000,000 god marks, Second Mortgage Bonds for 38,000,000,000 and Third Mortgage Bonds for 82,000,000,000. But only the First and Second Mortgage Bonds were to bear interest from the outset. The much greater amount of Third Mortgage Bonds was not to be issued at all until such

time as the Reparation Commission might be satisfied that the payments which Germany was required to make would be sufficient to provide for interest and sinking fund payment on such bonds. Germany was required to pay in each year until the redemption of all the bonds 2,000,000,000 gold marks plus 25% of the value of its exports. This requirement was successfully enforced. Conditions in Germany went from bad to worse, the currency depreciated more and more, the deficit in the budget rapidly increased. The Dawes Committee of Experts was formed to advise the Reparation Commission particularly as to the means of balancing the budget and the measures for stabilizing the currency.

The Committee held that stabilization of the currency and balancing of the budget were interdependent and that neither could be done without the other but that it would be well to discuss each on the assumption that the other was accomplished.

Assuming for the moment that the budget could be balanced and remain balanced, the Report proposes to stabilize the currency by the creation of a bank of issue which shall have the exclusive right to issue paper money for fifty years. A substantial gold reserve must be maintained by the bank to protect its issues of paper money, and such notes can only be issued against liquid assets valued on a gold basis. Thus this plan puts an end to the flood of paper money which for several years had been one of the principal curses of the German people. This bank is to be privately owned and free from control of the Government. While its immediate management will be German, there is to be a general Board consisting of 7 Germans and 7

foreigners with broad powers in matters affecting the credit of nations. One of the foreign members is to have the title of commissioner, charged with the duty of seeing that the bank maintains its reserves and issues notes only in accordance with the plan. The bank will be the depository and fiscal agent of the government will serve as a banker's bank, rediscounting the best paper, and will establish the official rate of discount.

The new bank will have a capital of 400 million gold marks partly subscribed in Germany and partly abroad. In addition, it is an essential part of the plan that there shall be a foreign loan of 800,000,000 gold marks to Germany to be deposited in the bank as a contribution to its gold reserve. The Commission is of opinion, and with justification, that such a bank, so fortified will be able to stabilize the currency, grant a balanced budget and the improvement of conditions which will result there from.

Turning to the balancing of the budget, the Report proceeds upon the theory that the dominating feature is Germany's obligations to the Allies under the Peace Treaty, and that her primary moral obligation is toward those who have suffered so severely through the War, that Germany should reduce her domestic expenditure to the very minimum and increase her revenues to the maximum amount which can be successfully raised through taxation, and must pay the excess over her domestic expenditures in discharge of her obligations to the Allies.

The Committee deals with this in an eminently practical way. It shows that it has been hopeless to raise adequate revenues with constantly depreciating currency, because among other things most of the value evaporated from the taxes between the time they were fixed and the time they were collected. Evidently the collection of revenues when the currency is stabilized will be far more promising. The Report leaves to Germany the responsibility for economical administration of a governmental machinery, and hence for determining the amount of domestic expenditures. The Report recognizes that a fixed minimum payment from the outset of 2,000,000,000 gold marks per year as contemplated by the Reparation Commission in 1921 is impracticable. Hence it provides that the general or ordinary budget shall not be required to make any contribution to Treaty obligations in the first and second years, but shall be required to contribute thereto 110,000,000 gold marks in the third year, 500,000,000 gold marks in the fourth year, and 1,250 million gold marks in the fifth year thereafter. Thus as to the general budget the report accords a moderate moratorium and gives the government a chance to catch its breath under conditions of stabilized currency before having to face the Treaty payments. The Committee indicates that these amounts have been fixed, having in view the probable rate of growth of the national income and the maximum portion thereof which can be successfully absorbed in taxation.

The committee concedes that the prospect would be hopeless if the present situation reflected Germany's potential capacity but shows that with the industrious and highly skilled population, the country's eminence in industrial science, the marked improvement in agriculture, the substantial material resources, great development may be counted on. The Committee stresses

the extraordinary improvement since 1919 in the plants of the railways, telegraphs and telephones, harbors and canals, and indicates that Germany now has an entirely modern industrial plant possession in many lines greater than pre-war capacity.

The Report give much attention to the question whether under its proposals for Treaty charges to be met out of the general budget, the necessary taxation will be more than commensurate with that which is sustained in the Allied country and reaches the emphatic conclusion that such taxation in Germany will be no more than commensurate and that any less than such taxation would be unjust to the Allied countries in view of the taxation which must continue to be sustained by their industries and people.

The report responds in a direct and practical way to the demand, which has been particularly insistent on the part of France that productive guaranties must be given to insure the payment by Germany of the amounts imposed. The Committee does this by providing that taxes on customs, alcohol, tobacco, beer and sugar, shall be assigned outright to the Allies. The tax agencies are to pay these taxes directly to the Allies Control Commission. He is to hold what s necessary to meet the total Treaty charges to be paid out of the general budget, and is to pay the balance over to Germany. He is to supervise the situation closely and to increase his supervision to the degree that results may become unsatisfactory. But the Committee concludes that the revenues from these sources will be about 2,000,000,000 gold marks a year, and hence will leave a big margin

over the billion and a quarter gold marks which the general budget must contribute annually after the fourth year to the satisfaction of Treaty charges.

In this dealing with the normal demands upon the general budget, the Committee is both fair and practical. It meets the demand of Germany for a moratorium, it meets the demand of the Allies for productive guaranties, and it meets the general view that German taxation should be commensurate with Allied taxation.

But taxation is not the only source from which reparations and other Treaty obligations may be paid. It has been frequently insisted on the part of the Allies, and especially France, that the German railways constituted an asset of great importance which should be made available to Germany's creditors. The Report responds effectively to this demand. The railways are owned by the German government. While they have been operated at very large deficits since the War, it is proposed that the railways be leased to a private company, and operated frankly for reasonable profit, that rates be increased above their present unreasonably low levels, that needless maintenance and capital expenditures be discontinued; and it is estimated that upon this basis the railways will speedily yield a very substantial return, as they did before the War. It appears that since the War Germany has by very large expenditures brought its railroads up to a standard superior to that of any other country and that all the railway debt has disappeared through payment in greatly depreciate money, except the recent debt which is relatively a small amount.

The Report therefore proposes that the German government issue to the Allies bonds for 11,000,000,000 gold marks, bearing annually 5% interest and 1% for sinking fund, and that subject to this debt the railways be leased to a private company for operation. It is proposed that the full annual charges on these bonds for interest and sinking fund shall not be imposed until the fourth year, giving a three year period for establishment of the railways upon the new basis.

In addition, a transport tax is levied and included in the rates charged the public. After the first year the general budget is not to have the benefit of this tax but it is to inure to the benefit of the Allies to the extent of 250,000,000 gold marks in the second year and 290,000,000 gold marks in all subsequent years, and the general budget will get no benefit except in respect of any excess.

In these ways the Committee give the Allies not only 11,000,000,000 of railway bonds which apparently will be entirely sound, but give them after the second year 290,000,000,000 gold marks annually, the proceeds of the transport tax.

Following somewhat the same principle, the Committee proposes to require Germany to supply the Allies with 5,000,000,000 of bonds secured by First Mortgage on German industries, these bonds to bear annually 5% interest and 1% sinking fund charge. The Committee says that this amount is less than the total pre-war debts of these industries, which has been practically extinguished through payment in depreciated currency and that these industries have also greatly profited in other ways such as the benefits from the long delays in paying their taxes, subsidies in

advances by the government, and the depreciation of the emergency money which they were authorized to issue. The Committee concludes that these 5,000,000,000 of bonds would create no burden upon industry greater than would have existed if no depreciation of currency had taken place. The Committee proposed that the interest be waived on these bonds the first year and that the full amount of interest and sinking fund charge be not imposed until the fourth year thereafter.

In these respects the Committee again demonstrates its ingenuity in protecting the Allies on the one hand, and the German budget on the other hand, and upon principles whose justice appears to have been generally accepted. Indeed, the Committee shows throughout its plan ingenuity to a marked degree to get practical results by placing the burdens where they can best be placed. For example, in the first year there is to be no charge on the general budget for Treaty payments, and no direct payment at all to the Allies except 200,000,000 gold marks of interest on railway bonds. Yet the Committee proposes that in that year Germany should use the 800,000,000 gold marks, being the amount of the external loan to purchase in Germany coal and other supplies so as to make to the Allies essential deliveries in kind, and thus avoid interrupting a minimum of payments and deliveries by Germany to the Allies even in the year of budget moratorium.

But the Committee was confronted with another insistent demand especially on the part of France. It was said that it was impossible at present to forecast the degree of Germany's increase in prosperity, and that any amount now fixed might turn out to be wholly inadequate if Germany should enjoy in the course of the years of Treaty payments a very great degree of prosperity. The

Committee meets this by proposing what it calls a composite index of prosperity. It takes as a base certain years, principally the year 1926 to 1929, and for the base period it takes 6 different factors:

First, total export and import traffic; second, total government receipts and expenditures; third, total railway traffic; fourth, total value of sugar, tobacco, beer and alcohol consumed; fifth, total population; sixth, consumption of coal per capita. The composite result of these factors for future years will be compared with this composite index, and as the comparison indicates an increase above the basic index, the total amount Germany is to pay must be increased after 1934, the percentage of increase if any must be applied to the entire total of 2,500 million gold marks which represents the total annual payments from all sources, budget, railways, industrial bonds, etc.

This constitutes an effectual answer to the claim that an immediate fixation of annual payments may operate to deprive the Allies of a reasonable share in the increase in Germany's prosperity.

It is another striking instance of the way in which the Committee has provided a formula meeting insistent political demands and yet has left the matter in shape to develop facts according to the shape the future takes.

Another and one of the most interesting and important of the Committee's achievements, has been to reconcile in practice 2 apparently inconsistent theories of Germany's capacity to pay. On the one hand it has been urged that Germany could pay nothing to foreign countries except to the

extent that it had a surplus of exports over imports and that its capacity must be measured by the prospective amount of that surplus, if any. On the other hand it has been insisted that this surplus is a most elusive thing and that any such surplus for the future is incapable of forecast, and further that even if Germany had a surplus of exports over imports it ought to pay the Allies through giving them an interest in valuable property situated in Germany, and it has been further urged that in any event amounts raised by Germany to pay to the allies had to be raised through taxation in Germany and that these taxes were payable in German money and not in foreign exchange, and hence were not dependent on Germany's export surplus. The argument about Germany's capacity to pay has wavered back and forth over these different theories, and frequently disputants were not talking about the same thing at all.

The Committee deals with this matter also in a practical way calculated to appeal to the sense of justice of all concerned. It says that all the payments to be made to the Allies whether out of the ordinary budget amounting to 1,250 million gold marks a year or for interest and sinking fund on railway and industrial bonds, transport tax, etc., amounting to another 1,250 million gold marks per year, shall be paid to the Allies in Germany in German marks and deposited to their account in the bank of issue. Thus the Committee accepts the view that in the first instance Germany is to pay in German money in Germany. But the Committee also accepts the other view that these payments cannot be transferred to other countries except in the light of Germany's external economic balance. But the Committee recognizes the practical condition that it is futile to try to fix now what this economic balance will be in the future. It therefore provides that the extent to

which the deposits to the credit of the Allies in Germany may be transferred to foreign countries depend on the facts as they develop, will be dealt with as necessity arises, and will be determined by a Committee consisting of the agent for Reparations and 5 members from Allied and Associated countries. It will be the Committee's business to control the transfer of cash to the Allies by the purchase of foreign exchange, to pass on the amount of deliveries in kind to be made to the Allies, and to obtain the maximum transfers without bringing about instability.

This constitutes an admirable formulation of just principles in an eminently practical manner, leaving facts to be dealt with as they arise and not trying to deal with them before there is any possibility of knowing what they will be.

But the Committee also had to deal with the consideration that if the deposits made to the credit of the Allies in Germany could not be transferred to foreign countries these deposits would continue to accumulate, and the Committee has placed a limitation upon that accumulation. It is indicated that normally the cash deposits in the bank of issue to the credit of the Allies should not exceed 2,000,000,000 in gold marks, but that the representative of the Allies may invest in German bonds or short term notes another 3,000,000,000; but that when the total funds accumulated in the hands of the Allies in Germany reach 5,000,000,000, the payments by Germany out of the budget and the transport tax are to be reduced until the transfers to the Allies can be increased and the accumulation reduced below the 5,000,000,000. This limitation gives the Allies a powerful inducement to facilitate the building up of German trade to the point where

its economic balance will admit of purchase of foreign exchange with German funds without impairing the stability of the German currency. It has frequently been observed that the Allies could never secure payment from Germany unless they permitted Germany to build up its trade to the point where it could make payment and that if the Allies used their power to restrict the opportunity of Germany to build up its trade, payment would be impracticable. The Committee by placing this definite limitation of 5,000,000,000 on the amount of funds which the Allies can accumulate in Germany, (and it will be remembered this represents 2 full years of contributions under the plan after the plant gets fully into operation) they reduced to precise and obvious terms this inherent principle, and they put the matter in a situation where the interest of the Allies to facilitate German trade is apparent and where any inability of Germany in these respects will become quickly apparent and will show itself in a reduction of the budget contributions.

Another difficulty heretofore with the operation of the Treaty has been that the Treaty has imposed a great variety of charges upon Germany in addition to the Reparation charge. These other charges include the charge for the Armies of Occupation, and the numerous Commissions of Control. The Allies have had to inducement to reduce the burdens on these accounts because Germany had to pay these amounts in full in addition to paying reparations. But the Committee's Report gives the Allies a direct interest to cut down these other Treaty charges because the Report provided that the amounts it indicates are all inclusive and that out of the amounts to be paid by Germany in accordance with the plan the Allies are to get all they will ever get for every sort of Treaty charges. It follows therefore that the more the Allies pile up Army Occupation

costs and costs of Commissions of Control, etc., the less the Allies will get for reparations. The Committee's plan has the further great advantage of aiding in defending the German situation. It would be far from definiteness for Germany in addition to paying for reparations or fixed amounts indicated in the plan then had to pay indeterminate and continuing amounts for all the other purposes.

It is fair therefore to sum up the Committee's work by characterizing it as a wonderful formulation of just answers on questions of principle in such manner as to encourage all to support it and to aid any political leader in justifying his support of it; and as equally wonderful in leaving to the facts of the future the working out of these principles in accordance with practical justice.

It has been strongly urged that the Committee plan was seriously defective because it does not fix the total amount Germany is to pay. From the Committee's standpoint a sufficient answer is that this question was not submitted to the Committee. In fact, it was a question which France expressly refused to submit to the committee. The political conditions were such that it was not possible to submit this question at the moment. The Report itself is a striking indication of the impracticability of fixing the total amount at the moment. The Committee is not able to fix even the annual payments with absolute certainty. It indicates the basic figures but these are to be varied according to the degree of prosperity which may be realized in Germany. This problem is too great and involves too great a degree of the future to admit of an answer being obtained at

the present moment to every possible question that arises. The whole world should be thankful that the Committee has found reasonable and practical answers to so many of the vital questions and should not disturb itself because all of them cannot be answered at once.

A reference is appropriate to the matter of the French Occupation of the Ruhr. That occupation has been in a sense both military and economic. French soldiers have been in the Ruhr and in addition the French have attempted to operate the railroads and exercise a degree of control over the operations of industries. The Report draws a sharp distinction between these 2 things. It says that military occupation is not within the reference to it, and it makes no recommendation in regard thereto, but it makes it absolutely clear at the beginning of its report that its entire report is based upon the assumption that the fiscal and economic unity of Germany will be restored and that the economic activity of all parts of the country will be unhampered and unaffected by any foreign organization except the controls which are set up in the Committee's plan itself. This means that all interferences with economic and fiscal activities in the Ruhr must cease as an indispensable part of the plan taking effect.

A question of the first importance is as to how the plan of the Dawes Report is to be enforced. As to the payments to be made out of the budget, the productive guarantees above referred to have been provided whereby the taxes on customs, alcohol, tobacco, beer and sugar are to be paid directly to the representative of the Allies.

As to the railway and industrial bonds, there are the usual legal guaranties. In addition to the strong economic problem that the payments will be realized as to all these matters, provision is made for close supervision. But it is evident that in problems so complicated a great deal will depend upon the good will of all the parties. The Committee has earnestly tried to make it to the interest of all the parties to carry out the plan. However, a great practical point that must not be ignored is that France profoundly distrusts Germany and believes Germany will try to break down the plan if it is its interest to do so, and believes further that Germany will think it to its interest to break down the plan unless definite and drastic penalties are provided in the event of violation. Further than this France believes Germany will have a definite purpose to try to get England and France into disagreement as to the method of enforcing the plan, and will play upon that disagreement and try through it to escape the Treaty obligations. For these reasons it appears that France wishes to agree in advance with England and the other Allies as to the penalties to be enforced in the event Germany does not carry out the plan, so that these penalties may follow automatically in event of default, and so that Germany cannot make default in anticipation of being able to get England and France into disagreement as to the penalty to be imposed on account of the default.

On this exceedingly difficult point the report is not entirely clear, but it implies that no drastic penalties are to be imposed at all except in case of flagrant failure on the part of Germany, and in that event the penalties are to be imposed only by the joint action of the Allies, and that it will not be necessary for the Allies to agree upon the character of such penalties unless and until such

a default shall arise. There is here an opportunity for serious disagreement between England and France. It is certainly to be hoped that each will be prepared to concede enough to bring about an agreement. It seems reasonable to believe that a decision either way might well be reached on this question, important as it is, rather than to disagree by putting the report of the Dawes Committee into execution. The plan has so much inherent merit and contains so much of an appeal to the self-interest of all concerned that there is reasonable hope of its being so successful that the penalty question may not become important whichever way it may be decided. Since the Dawes Committee has been so extremely successful in finding formulas generally acceptable on many points heretofore disputed, it is to be earnestly hoped that France and England can find a formula on this point.

It seems to me that that is one of the most important and vital things to be worked out. I am very hopeful that England and France can work it out and thus find a formula which will satisfy France and at the same time will not run counter to the general views of the report.

I think that is one of the greatest difficulties which have existed with reference to working out a solution of this problem, and that is the disagreements between England and France. I think Germany has counted on them from the beginning, and that she has been encouraged to believe, by reason of the disagreements between France and England and the frequent deadlocks between them, that she could get out of paying reparations which, under the Treaty and under the insistence of the Allies she ought to pay. It seems to me that that is the vital thing in this plan, for

France and England to get together and make it plain that there is not going to be any disagreement, and I think that assurance to Germany that the 2 principal Allies are going to stand together, coupled with the self-interest which one Committee has put in this Report to make Germany want to carry it out, that those things together will make the plan in practice the success which I think it richly deserves to be (Applause)

MR. OSBORN: I have very great pleasure in introducing the next speaker, Dr. Benjamin M. Anderson, Jr., the Economist of the Chase National Bank. (Applause)

Second Speaker

Dr. Benjamin M. Anderson, Jr.

Economist of the Chase National Bank

Mr. Chairman and Gentlemen of the Economic Club: The preceding speaker has put all of us who are to follow under a very deep obligation. You have heard a most lucid analysis and exposition of the Committee's plans, and it is permissible for the rest of us, I think, to engage in somewhat discussive comments upon one or another feature of it that may seem of special importance, assuming as a background the admirable exposition you have heard.

There has been enough economic wisdom in the world, at least, since the time of John Stuart Mill, to have solved the difficulties which have grown out of the War rather readily. There has

not been a time in the past 4 or 5 years when a committee of this kind, getting together, could not have outlined a plan which would have straightened things out pretty promptly, had it been possible for economic wisdom to disregard political difficulties. I think that one of the remarkable achievements of this Committee is in the skillful course it has steered in the midst of political difficulties, and in the fact that it has, after a great deal of negotiation, and balancing interests, and balancing contradictory points of view, and balancing of unsound theories of one or another kind which, however, happened to be propounded by powerful groups, -- skillfully steered its course through these things and come out with a sound businesslike economic plan apparently acceptable in principle to all the interests involved. It is as diplomats quite as much as economists that we must applaud the Committee's work.

The Committee has assumed a return to political peace and to an era of something like good-will in the world. Frictions and hatreds will remain, but something like confidence on the part of the Allies in the good faith of Germany is an essential to the working out of this plan, and the time has come, I think, when we in America, at least, must definitely face that question, and I believe that the time has come when preponderant enlightened opinion of the United States is prepared to trust a democratic Germany to make a real effort to get herself straight with the world as a whole. I believe that we can trust Germany, if this plan is adopted, to undertake to carry it out well.

I had planned to say something in summary of the Dawes plan before going on to the details so perhaps I may be privileged to touch just on certain highlights in summary of what Mr. Hines has said. The Committee feels that a balanced budget is in sight if the currency can be kept stable and if the budget is temporarily lifted from reparations payment. The currency is to be stabilized by this new bank. Reparations are to be paid to the limit of Germany's ability, but for the first 2 years from special sources other than the budget. It is rather remarkable, the ingenuity with which provision is made for that first year's payment. The provision that you can use the proceeds of the loan in full for two purposes, one to put gold into the bank and the other to pay reparations to France and England and Belgium. It is done by the device of making a deposit in the bank in the form of gold and dollars and sterling, and receiving in exchange for that the mark liabilities of the bank in the form of deposit credit, or notes to be used in Germany in buying goods to go to the Allies, then that very significant thing of the division, the sharp division, between the payment of reparations and the receipt of reparations. Germany itself pays reparations and receives credit therefore when she pays marks to the bank. It is then the business of the Allies to convert those marks into sterling or francs for the Allies' need. It is their responsibility, not Germany's.

Now, I want to stress, not the plan itself, not certain points of the plan itself, but certain questions of administrative policy. I believe that the plan will succeed, and that it will work if adopted, but there are problems of administration connected with the plan that need careful consideration, and one thing of very high importance is that this new bank of issue be made from the beginning a

real gold bank; that it pay out in redeeming its notes on the first day it is opened, gold, or gold exchange to the unknown man who comes into that bank and presents his note at the paying teller's window for redemption. Actual gold redemption is the one sure way, and the only sure way, of creating a stable currency. Paper money is a promise to pay real money. Real money is a piece of precious metal of fixed weight and value, with or without a government stamp upon it, the value of the real money coming from the value of its metallic contents, and if the government stamp is on it, being merely an attestation of the weight and value, which means something that people believe in. In China it often has happened that people won't trust a piece of silver stamped by the government, but will take it to a private bank and get them to stamp it and assay and weight it, and with the private bank's stamp on it they will take it. In this country people take lightweight gold, even though it has the stamp of the government on it, to a private bank or a custom house, and they will weight it, and if it is lightweight they will not take it at its full face value. That is real money. Paper money is merely a promise to pay real money. Paper money is a creature of contract law, and as long as the issuing authority meets its contract which is to pay on demand to the bearer of the note the gold promised, just so long as that is the paper money an acceptable substitute for real money and just so long is it accepted in the value where it is supposed to stay. But when the issuing authority, be it bank or government, forgets that paper money is a creature of contract law, and seeks to draw from the sovereignty of the State or from some magic fountain of popular will a mythical assurance that is going to keep it suspended in mid-air -- you can keep it in the air, but you cannot keep it stable, and you cannot always keep it in the air even. It fluctuates, it depreciates, and it ceases to serve the needs of commerce. The

greatest evil that Europe has been through, the most demoralizing thing that Europe has been through since the War has been this fluctuating rotten, unconvertible paper money, paralyzing cost accounting, paralyzing anybody wanting to make a long term contract, upsetting public morality.

Why, they made contracts with their tongues in their cheeks, not knowing what their money was going to be worth 6 months hence. You could not trust it. You could not do business that way in any complex European civilization.

There is a school of some importance, because it has some influence, a school of economists which believes in the possibility of maintaining paper money stable in value through the manipulation of discount rates. It proposes by the artificial manipulation of discount rates to regulate price levels, regulate exchange rates, and so on, and to solve, in the course of it, all economic ills. I like to call this school the Chiropractic School of Economics, which takes the discount rate as being the economic backbone, and if the organism is suffering from malnutrition they would propose to manipulate the backbone and restore sound nutrition. I think that the more orthodox schools of medicine recognize that sometimes there are diseases of the spinal column, disease of the spine -- rickets is one, I think, -- but they do not cure that by manipulating the spine. They make use of cod liver oil, and I am very skeptical of that type of economic thought that wants to get away from the old fundamentals tried and tested in the history of money and banking, and by manipulating discount rates to regulate the whole thing.

This school has been one of the obstacles that the Committee has had to deal with in reaching its conclusions as to what is a sound administrative policy for this bank. You are not going to get an effective working of this plan without a gold currency, without free gold markets, without natural discount rates in Germany which a free gold market involves. You are not going to get prices and costs in Germany into equilibrium with world prices and costs so that commerce can operate smoothly, until you have a real gold bank and real gold money there.

It is possible, in the interests of an easy discount rate for the bank of issue of Germany to suspend gold payments and so protect their reserves from foreign raids on their gold, in order to keep discount rates easy. How would that work, however, from a standpoint of restoring to Germany the working capital that she needs? Germany is desperately short today of working capital. The Committee reports an increase since 1919 in fixed capital, plant equipment and the like, but working capital is so desperately short that interest rates today in Germany of 2 and 3 % a month are reported to favored customers; higher rates to others.

The McKenna Committee has reported that the supposed vast accumulations held by Germans abroad in the form of liquid capital have been greatly exaggerated and if they all came home Germany would still be short of working capital. She has got to draw from the outside world a great flow of liquid working capital. She cannot get it if the outside world does not trust her currency. Foreign banks will make deposits in German banks if they believe they can get them

out on demand and without loss of value. A great flow of required capital will come from various outside sources but, however, with a currency that the people trust and that they know is redeemable is gold, you will be able to get into the coffers of that bank a very large part of the one billion two hundred million gold marks of foreign currencies said by the Dawes Committee and the McKenna Committee to be now held in Germany, in circulation. All these sources of liquid working capital can be drawn there if you have a gold bank from the outset, and you cannot get anything like as much if you do not have it.

Just a word about that great increase since 1919 in fixed capital. That there has been an actual building of plant, physical plant; improvement in physical plant, machinery, and things of that sort, seems to be unquestionable. That it constitutes as effective an economic resource as many have supposed, I doubt. Consider the process by which this has been put there, and the circumstances attending. Here are a people faced with paper money, sinking, sinking, sinking, day by day; almost hour by hour. What is the intelligent thing to do? The least intelligent thing of all is to save the money. Mr. Lloyd George some time back was telling the story of the 2 brothers in Austria who shared equally in an inheritance. One of them was a thrifty lad who venerated the memory of his father and revered his father's teachings and he put the money in a savings bank to get the interest upon it. The other was a reckless blade, and he put all his money into bottles of wine, and in 4 months he had drunk up all of his wine and he had nothing left but the empty bottles, and then he sold the bottles for more money than the other brother had in the bank. (Laughter) thrift was the least intelligent thing in such a situation. Extravagance was reasonable.

Spend it today and it will be worth less tomorrow, and Germany, as you know, went through a riot, an orgy of extravagance.

The next most intelligent thing to do was to take your money and spend it on other things, but other things that would not sink in value, buy foreign exchange, buy real estate, buy commodities of a non-perishable sort, anything except bonds, and a great many did that and saved their capital. But the highly intelligent thing to do in such a situation, the thing by which you could make a fortune in a situation of that sort was to engage in bull speculation on borrowed money. Borrow all you could; borrow everything the banks or your friends or anybody else would lend you. Buy things that would not sink in value, and meanwhile your liabilities from your borrowings would shrivel, your assets remain unchanged, and finally, sell for millionth part or ultimately a trillionth part of what you had paid for this borrowed money, pay back all your debts and hold the rest clear. Now, that process went on a great scale, and among the things that men speculated in was labor itself, labor they could use building plant equipment and houses, building anything. But now bear in mind the circumstances under which the building plans were made. These plans were not carried through by prudent businessmen on the basis of careful costs, looking at markets. No, no. they were carried through on the basis of hastily extemporized speculative plans in an economic chaos in which even the wisest men could not make any forecasts of markets, and instead of it being carried out by the old technologists, they were carried out by the new type of restless, plunging speculator to whom the humdrum ordinary business was not well known. There is a vast difference between an assembly of brick and mortar

and a going concern, or between a great lot of hastily built ships, and a proper mercantile marine, and I am somewhat skeptical of the economic efficiency of much of this new plant of Germany.

One point, regarding the problem of transfer abroad, I regard the sharp division between the payment of reparations and the receipt of reparations and the removing from the Transfer Committee this power to reinvest in Germany as much more important, from the standpoint of building up Germany's internal spirit and getting her ready to pay reparations than the problem of getting the stuff out of Germany when Germany is in a position to produce it. I believe that the thing will take care of itself automatically if you have sound financial machinery.

Let me state the argument briefly. Assume that Germany has collected in taxes and in interest on railroads and so on the necessary sum to be deposited in the bank. That means that the German people are consuming less than they are producing. It means that part of their buying power growing out of their production has been taken away from them and piled up in a fiscal surplus that means that prices in Germany tend to go below the level of world prices. They are producing more than they can consume at home. On the other hand assume that England and France are getting reparation payments. Their treasure is receiving funds that were not produced in the country. They can remit taxes to their people. Their people have, therefore, more buying power than before, and prices in France and England consequently tend to go above the world level. They can afford to buy at the prevailing prices more than the produce at home. Under those circumstances goods tend, under the ordinary forces of commerce, to flow out of Germany, and

good tend, under the ordinary forces of commerce, to flow into France and England. Germany is a good market in which to buy and a poor market in which to sell. France and England are good markets in which to sell and relatively poor markets in which to buy. However, until Germany has got an export surplus equal to its fiscal surplus which has to be transferred, German prices tend to lag below the world level. Until England and France have brought in an imported surplus equal to the extra funds that come to their treasury, prices in France and England tend to be way up above the world level. When the export surplus from Germany becomes equal to her fiscal surplus for transfer, and when the imported surplus of France and England becomes equal to the extra funds their Government got, then equilibrium is restored, and prices naturally are down to world level prices in England and France and Germany's prices are up to world levels. People in Germany are able to receipt foreign buying, and you have got equilibrium.

The argument that I just stated very briefly is a technical argument. I should need to modify and amplify it in various ways, but I have stated it in essentials and have amplified it elsewhere. I believe that American bankers have a very special duty in this present situation, a duty to the investors of the United States who are going to be asked to take this German loan. I believe the German loan can be made a good loan, not merely from the standpoint of speculation, but actually a good investment. But I believe that the American banking group owes it to American investors to concern itself actively in making terms that will assure that. The terms ought to be, in my judgment, three: One, that this new bank be organized from the first as a real gold bank, redeeming its notes in gold or gold exchange on demand.

Two, that we have an understanding with the Transfer Committee, the Committee's powers, I think, are adequate to meet the situation, that no miscalculation regarding some special point in the plan shall be allowed to upset the whole plan which would jeopardize the service of this loan and, finally, third, that the service of this loan, interest and amortization payments for the service or this loan constitute a prior charge upon all receipts from Germany, having priority not merely over reparations payments, but also over the expenses of Armies of Occupation, Boards of Control, and every other claim upon Germany. This requirement is, I believe, quite as much in the interest of France, England and others of Germany's creditors for reparations payments as it is in the interest of American investors, since uncertainty on this point would make it necessary for the loan to bear a higher rate of interest and so would leave less for reparations payments, and this last point merely makes explicit what is implicit in the language of the Dawes Committee. I thank you. (Applause)

MR. OSBORN: I was reminded during the course of Mr. Anderson's remarks about the difference between money which had the stamp of the government and real money, of an occurrence in Kentucky during the 1896 Campaign. A district in Kentucky was reported at Louisville to be extremely doubtful on the free and unlimited coinage of silver, and they sent a representative up from Louisville into this district, which was somewhat away from Louisville, to talk with the people. He found that the audience was an intelligent audience, greatly interested in the subject, and in looking them over he saw seated right in front of him a large man with a

sharp, black eye, and great, bushy beard and a huge mass of hair that stood on end, and he made up his mind right there that he was going to have trouble with the fellow. And sure enough he had gotten fairly started in his remarks when this man, fixing his black eye on him, said to him, “If the Government of the United States were to take a piece of paper and stamp on it “This is worth a dollar, wouldn’t it be worth a dollar?” This man was somewhat groveled for a moment, and then he looked at this fellow and he said, “My friend, if the Government of the United States was to cut off your beard and your hair and bale it and label it “Hay” it would not be hay, and there isn’t a jackass in this county that would not know that it was not hay.” (Laughter and Applause)

With this serious contribution to the economic thought on the part of your Chairman, I will resume my proper function and with great pleasure present to you Dr. H. Parker Willis, Editor of the New York Journal of Commerce.

Third Speaker

Dr. H. Parker Willis

Editor of the New York Journal of Commerce

Mr. Chairman and Members of the Economic Club: Mr. Ely has asked me to speak to you for thirty minutes. I shall not exceed that limit, partly because I know he won’t allow it, and also because there comes into my mind the advice of Evangelist Moody, to the young preacher,

always apposite on such an occasion, that “Not a soul is saved after the first 20 minutes.”

(Laughter) I shall try to err on the side of leniency and not go beyond the full time if I can help it.

It seems to me that every American citizen who has anything to say upon this subject ought to begin by paying his most earnest and sincere respects to the American Committee which has so ably and intelligently carried out its contract and defined the position of the United States in connection with the whole Reparations question. Great indeed would be the ingratitude of our people; greater even than the traditional ingratitude of democracies were we to refuse this full measure of regard for the work which they have done. If I were to paraphrase a sentence of Lincoln I should say that the world will little note nor long remember what we may say on this plan here, or in other assemblages of this kind, but that it will not soon forget what they have done with regard to it. They have done more than to supply a careful, thoughtful and able analysis of this great question. For they have added to that, it seems to me, a distinction to American prestige which was sorely needed, making it plain to the world at large not only that our business public is concerned in the fundamental conditions of the reparation problem, but that our citizens are very much concerned in it, and that they are desirous to play their part in settling this great problem of the world, that they are willing to give their time, labor and reputation freely in what must have seemed to many during the past few years a hopeless cause.

Yes, they have done well, particularly well because of the difficulties, the unnecessary difficulties, to which they have been subject by their own Government’s practice of regarding

them as unofficial. But there comes a time in all great undertakings when the enthusiasm which has carried the endeavor forward almost to success drags. The work of the Reparations Committee has been done, but it cannot bear fruit unless much more is done than the Commission itself has been able to do no more than suggest. That work undoubtedly must be largely done in the United States. It must be done in some measure, no doubt, through the supporting of the financial endeavors and recommendations of the Commission. It must also be done in large measure, as it seems to me, through the actual manifestation of intelligent interest on the part of our public. Without that all the effort of the Commission, all the thought that has gone into this matter, will lose its force, its effect, and there will be lacking that essential element of enthusiasm and of national support which is requisite to carry it forward to its full outcome.

So in what I have to say I want to speak of the relation of the United States to this matter. I don't know how much Germany can pay. I say quite frankly that after reading, as it seems to me, interminably on the subject, and coming much to the same frame of mind as the mathematical writer who began an algebra with the statement that he would regard the signs plus and minus as identical for the purpose of this treatise (Laughter and Applause), it seems to me that one of the best things in the Dawes Report is the recognition that it is impossible for anyone to say what reparations can be paid, and to get out of the realm of the metaphysical and to get into that of practical effort, by endeavoring to do something, and to do it as soon as reasonable. I am perfectly willing to accept the views of the Dawes Commission, the Reparation Commissions, as to the amount that can properly be paid. They have devoted long and careful attention to it, and

they had the services of able experts, but when that amount has been determined it still remains the fact, as I have said before, that to that itself there must be added the great machinery necessary for carrying it out. It was a wise thing, I believe, on the part of the Reparations experts, that they did not endeavor to state in detail all of the features that must be retained or provided for in carrying out their plan. To have done that would have enlisted at once enormous unnecessary opposition. Like the early masters of the Renaissance period, therefore, they have sketched in the heads and left the figures to be drawn by pupils in their schools who may not have the same art, the same skill, but who, at least, can be trusted to fill in the outlines that have been provided for them.

In this attempt to make their work practical, the attitude of the average man in this country will necessarily be of great importance. We have here in the United States today the greatest reservoir of wealth, and, I believe, unfortunately, the greatest reservoir of wealth, and, I believe, unfortunately, the greatest reservoir of gold in the world, probably the best organized nation from the industrial standpoint, and had it not been for some unfortunate happenings of the past winter, I should have said the best politically organized nation, but that is off the record. (Laughter) Say what you will, the United States can do a great piece of work. It is in somewhat the same position that we were at the opening of the War, when we were in doubt whether conditions would compel us to go in or not, and so here we are at the beginning of a great financial problem, perhaps, the most serious that the world has had to contemplate for a generation, and we have the same uncertain attitude of mind, and yet I know that the average man in the United States is

earnestly and sincerely desirous of seeing something done about this question. His thought is vague, is general, he doesn't know much about the rates of Exchange, Transfer Committees, etc., but his attitude is friendly. And the same is true of the American Bankers who on so many occasions have demonstrated their superiority to motives of mere profit, as they did so readily, so amply, during the War. And even the Politician has learned his lessons. The Farm Bloc, who have done more, I think, to make real the injunction of the poet to "Teach your flattered Kings that only they who cannot read shall rule," and every other body of politicians we have had now want to see a restoration of buying power in Germany and would be glad to provide for that in some way though not, unfortunately, by the enlightened methods of the American Commission.

So, as the physician would say, I think there is a favorable diathesis here in this country with respect to the granting of genuine, real help in settling this problem. But, as usual, the question is, how can it be done? Now, there are 2 problems there, one relating to current finance and the other relating to long term finance. They are problems the like of which has never been known to the world before and for which we have no exact precedents, and yet, we have 2 terrible experiences within the past decade, both of which now, I think, are largely forgotten, which I shall relate briefly for the purpose of recalling them to your mind for the light that they shed on this plan.

The first one relates to our early war experience in connection with short-term financing of the Allies. You may remember at that time that there was considerable doubt in the United States as

to what we should do. Mr. Bryan, who, at that time, was beating broken swords into plowshares for paper-weights in the War Department, had urged that while it was all right to sell goods abroad it was not right to sell them on credit. So that we had there a problem of getting a basis for our credit structure, which was so necessary in financing the foreign countries. At that time large acceptance credits were opened on a revolving basis, with the result that in the course of the 2 years, 1915 and 1916, very great temporary credits were granted, were spent in this country and goods were sent abroad. But how were they to be paid for? They might eventually have been paid by the release of the gold by the Bank of France, as was then proposed, but even then I don't think they would have been paid for in any way had we not gone into the War and so able to supplement them by funding them into Liberty Bonds.

Mr. Pickwick, you may remember, overheard a clerk in the office of Messrs. Doddson & Fogg, who was telling of the deposit by a poor debtor on the evening before. Of him the clerk said that he sighed like bricks, and lugged out the money wrapped up in a bit of blotting paper, paid out 2 pounds 6, and costs 3 pounds 8, and that is what we have been doing ever since, in our income tax, which we look on in very much the same way, lugging out each year in a bit of blotting paper and bring it to Caesar, on the theory that we are rendering what is his to him, although I have often doubted that. (Laughter) In doing that did you ever think that we were carrying on along lots of those credits that were opened just before the War? Those credits were brought to the attention of the Federal Reserve Board at that time, and after long and profound discussion

they were pronounced to be regular, ratable credits, and available for rediscount, and thus ended the first lesson. (Laughter)

But there was another one which came in the latter part of 1916, when, on a certain day, a representative of the British Government walked into the Office of the Federal Reserve Board and announced that it was intended to float here in this market an unlimited credit in the form of treasury bills. This matter was brought to the attention of President Wilson, and very shortly thereafter an announcement was made that these credits were not ratable, the result being that they were not taken up by our banks. At the present time we are offering in this market, as I understand it, we are taking up a substantial amount of such credits which have been pronounced ratable according to reports by the Federal Reserve Board. How far shall we go in that way? Are we going to make a national matter of the situation? Should not our bankers decide definitely and once for all what they can and will do for the purpose of financing the Germans? A previous announcement says that these credits are short time and will be paid for by the export of goods from Germany, but I read in the Reparations Commission's Report that the Chairman of the Transfer Committee which has been described by the press as the greatest financial boss in history, is to have full control over exports, and it would seem then that the amount that we can safely advance here depends very much upon the kind of financial boss when he shall have been selected, and it should be added, with some searching of the heart, upon his general financial ability and knowledge, not to say the other Powers affected by it.

Now, second, the Transfer Committee proposes to float a great loan of which at least one-half will be carried here, but that loan, when we look at the situation of Germany, must be regarded as little more than a bagatelle. No doubt many more of them must be floated here and, indeed, we desire that they should be. It seems to me to be the best feature of the Reparations Committee's plan that it is a statesman's document and that it does not look merely to the settlement of this temporary emergency and building up of Germany and then telling her to go it alone, but that it looks forward, as the Report itself says, in one of its ablest passages, to the creation of a sound and stable Germany, a sound and stable financial condition, one which will permit the continuous financing of German industry and successful carrying on of her foreign trade. If that be true, then we must regard this first loan as merely a beginning for, as my predecessors on this platform have told you, Germany is sadly in want of liquid capital, and while she may gain some of it from her own funds that have been sent abroad she cannot over-confidently reckon that that will be more than a small fraction of what she needs. We must expect then that a continuous process of financing German industry on long term basis will occur here, and that short term credits will in no small measure be funded into long term bonds, and I don't need to sit down and tell you that it makes no difference whether that funding be direct or otherwise. International trade is flexible. Balances in London are transferred to Paris and from there to Brussels or anywhere in the world. The question is one of foreign balances, and it is just there that the shoe pinches from the political standpoint. We have insisted on regarding this Committee as unofficial. I don't know what they word means, except that the Government did not pay the expenses of the Commission. (Laughter) In that sense it was unofficial. It was official in every

other real sense. Now, President Coolidge, in his recent address in this City, expresses the hope that the American investors would take up these bonds, and I believe the spoken words of the President, courageously presented, had a timely effect, but he would also have added, had the amenities of time and place permitted, that in this floating of a great loan it must be accompanied by necessary and requisite safeguards. What some of those are my immediate predecessor has told you. I agree with him in substance. I would also add that this is not the time to content ourselves with a more temporary bankers' plan of protecting a single bond issue. Either the United States is in this matter whole-heartedly and sincerely, or it is not.

Why not go at it from a national standpoint, accepting responsibility, admitting the need of what we are going to do, and definitely saying to our investors that they shall have that protection that comes from a reasonable participation of the United States in the international bodies which will have to do with the control of German finances? (Applause)

The late President Harding dared the Battalion of Death in the Senate by asking them if he might not appoint a member of the Reparations Committee. President Coolidge has recommended the World Court Plan of President Harding to the Senate, and he gets the Lodge World Court Plan, which a former Attorney-General, in words that I heartily concur in, has denounced as a piece of buffoonery, preposterous in its nature. (Applause)

If we cannot say a word in the Reparations Commission; if we are unable to submit any dispute about these issues to a court, how can we go to the investor and ask him to lug out his savings wrapped up in a bit of blotting paper and tie up those bonds? Of course, we cannot do it. The bankers may devise some plan whereby a sufficient amount of collateral is provided to take care of the immediate issue that is to be offered. I don't say that they will not. I wish I had a good bundle of those bonds reposing in my office safe now, but that is a very different proposition from the one that is published by the Reparations Commission, and we shall do injustice to the work of that Commission, we shall do injustice to the world at large which has devoted so vast an amount of social energy to the discussion of this matter, if we assume that in merely putting through the temporary basis of this plan we have done all that is necessary. Now, don't misunderstand me as urging an immediate donation of American wealth to Germany. That does not enter into my mind, and do not misunderstand me as suggesting that credits that are being granted to Germany shall not be well secured. I know that they are, or the people who are granting them would not have looked at them. I don't say either of those things. What I do have in mind is that we are going at the thing in the same way that we went at the War, with a few of our sons and brothers and friends going over there and enlisting, sending a few men to the front and letting them get killed, and sentimentalizing about them afterwards, but not for a long time taking the thing in hand in the way that we ought to as business people. That is the real problem of the Reparations Committee to overcome. Can they get support here? Are they unofficial? Are they unofficial with us citizens as they are at Washington? Are they as unofficial in Kentucky and Missouri and California as they are in the District of Columbia? I hope not. There is every

reason why this country should try to restore its foreign trade and to do it quickly. We are over-machined; we are over-built in productive efficiency. We have a surplus which we need to export. We had the biggest foreign trade as the close of the War. We have now gone back to the basis of 1913 and we have Great Britain go back to the basis of 1913 and better, and above all the time has come when we must definitely decide our attitude with regard to this matter from the selfish standpoint, if we won't from the idealistic conception.

So the problem presented by the Reparations Commission is a national problem. We might now say it was a world problem. But we cannot deny that it is national as well, and that is because it is a problem that involves individual prosperity to the great industries of this country. Besides that, it is a problem of our general status before the world at large. The Reparations Committee has gone far to put us back where we were, and where we belong in that regard. Let us support them. Let us grant these credits and let us do it not only on a safe but a self-respecting basis.

Why should it be unreasonable for us to expect that the Commission itself, or some other businessman acting for them, should do for us what they have done for Germany? Why should they not form a nucleus around which is developed a definite financial policy? It would be sad indeed if we were to find our Federal Reserve System organized for that very purpose unable to do it, but if they won't, then the American businessman himself must see that it is done, and done properly.

As for the duty of our nation, viewed from the political standpoint, we have only to follow the rational leadership, the mature conservative advice of our President, whose recommendations as to the participation in the international bodies which have charge of this matter, would undoubtedly go far toward giving our investor vastly greater security than he can ever obtain by any assignment of bonds on German industries or claims to liens on properties and railways in the Kaiser's former dominions. Shall we not look at it in this way? If we do not, it seems to me that we are hardly recognizing the work of the American Committee. We are giving them lip service, but we are not carrying that lip service out into actual practice and making it a real thing. Let us not leave this matter as a question of academic interest to be discussed at meeting like this, but let us recognize that it is our business, the greatest business that we can have from every standpoint for the coming years. (Applause)

MR. OSBORN: I cannot help a feeling that the export trade of Germany must be the necessary prerequisite of Germany's capacity to pay. Not myself an economist, I cannot understand how the British Empire and France and the United States can reasonably expect to take an export surplus of Germany, and it seems to me that a part of this great world problem must be the development of 2 great markets which as yet are not developed, the capacity of trade of the great mass of people in Russia, and the trade capacity of the enormous number of people in China. It seems to me that an increase in the standards of living of these 2 great peoples who today are living far below the most ordinary standards of human existence, that it is upon that that the future export surplus of the world must depend.

I have great pleasure, gentlemen, in introducing the next and last speaker, Professor Harold G. Moulton, Director of the institute of Economics in Washington, and co-author of “Germany’s Capacity to Pay.” (Applause)

Fourth Speaker

Prof. Harold G. Moulton

Director of the institute of Economics in Washington,  
co-author of "Germany's Capacity to Pay"

Mr. Chairman, and Ladies and Gentlemen of the Economic Club: the first three speakers have placed me under a very great obligation for having so fully discussed both facts and the principles underlying the Committee’s Report, but they have also placed me under a very great handicap, leaving comparatively little to be said. There are a few points, however, which I think have not been sufficiently stressed, to which I should like to give my attention. I preface by stating that I share the opinion of Mr. Hines and the other speakers in believing that the Dawes Report, or the Report of the 2 Committees, if honestly administered, will come as near to being a solution of this problem as one might expect to get. I attach not so much importance to the estimates of the sums to be raised with Germany. The real significance of the plan lies in the pronouncing of principles and controlling conditions and in the machinery that has been established.

Stated in the simplest and briefest possible way, the plan provides that Germany shall raise as much revenue for reparation purposes as can be procured without disorganizing the fiscal and currency system of the country, and that these funds shall be transferred to the Allies insofar as the transfer can be accomplished without upsetting the exchanges and producing repercussion upon the currency and the budget of the country. The committee estimates the sums that might be possible of procurement within the country if German prosperity is fully restored, but they venture no opinion as to the sums that may be transferred to the creditors by means of an export surplus. In last analysis they make the amount of the export surplus as determined by the course of events the measure of German payments. As we shall see, reparation funds are to flow into a bank reservoir within the country until a certain level is reached. Thereafter if that money cannot be drained off through the medium of foreign bills of exchange arising out of an export surplus, no further accumulations within the reservoir are to be permitted. The amount that can be drawn off will govern the amount that is to flow in.

- I. The Interrelations between Budget, Currency, and International Balance of Payments:  
The Committee's analysis of the interrelations of the budget, the currency, and the international balance of payment is admirable, and it is made to pervade the entire analysis. So important is a clear perception of these interrelations that I must quote certain significant passages from the report. The Committee recognizes, first, that a sound currency must depend fundamentally upon a stable or balanced budget, and

that an unbalanced budget and an unstable currency act and react upon each other. In the words of the report:

“It is self-evident that these problems are interdependent. The currency of a country cannot remain stable unless its budget is normally balanced, for if expenditure continually exceeds receipts there will in time be no alternative to the printing of new notes to meet the excess; and the inflation will inevitably involve depreciation. On the other hand, the task of balancing a budget, unless the currency is relatively stable, is an impossible one, for a falling currency makes calculations both of receipts and expenses unreliable, and in particular causes a continual loss to the taxing authority through the necessary interval of time between assessment and collection .... Their inter-dependence must be consistently borne in mind.”

The committee does not attempt to say in this connection which comes first in time sequence. They merely note that if for any reason the budget is unbalanced and paper notes are issued to meet the deficiency, the currency depreciates and that in its turn a depreciating currency, due to whatever causes, disorganizes the administration of the fiscal machinery. The important point in this connection is that with each fall in the value of the currency, the government's expenses for the succeeding month increase beyond the estimates; while at the same time the sums collected do not expand proportionately.

The Committee recognizes, second, that an unbalanced international trade and financial situation will in time react disastrously both upon the currency and the budget. On this point the report

states: “For the stability of a country’s currency to be permanently maintained, not only must her budget be balanced, but her earning from abroad must be equal to the payment she must make abroad, including not only payments for the goods she imports, but the sums paid in reparation. Nor can the balance of the budget itself be maintained, be permanently maintained except on the same conditions. Loan operations may disguise the position -- or postpone its practical results -- but they cannot alter it. If reparation can, and must, be provided by means of the inclusion of an item in the budget, i.e., by the collection of taxes in excess of internal expenditure -- it can only be paid abroad by means of an economic surplus in the country’s activities.”

That is to say, if Germany has an unfavorable balance of accounts -- including, of course, both trade and service operation -- the foreign exchanges, the currency, and the budget will all be adversely affected.

The statement that “loan operations may disguise the position or postpone its results” without altering it, is particularly significant. The Committee sees clearly that it is possible for a nation without a favorable international balance to make payments for a time, by means of borrowed funds. But the borrowed funds themselves give rise to new obligations and this increase rather than diminish the real burdens. Foreign loans may serve to tide a country over an emergency, but they cannot obviate the necessity of a favorable balance of trade, if interest charges and other charges are to be met.

## II. The Budget Problem:

The reparation funds are to be raised partly from ordinary budget resources and partly from special contributions from the railroads and from the industries of the country. It will be convenient to consider first the budgetary problem. The Committee lays down 2 main principles. The first is that the German tax burden should commensurate with that of Allied countries, and the second is that the amount that can be devoted to reparation payments is the difference between Germany's minimum domestic requirements and the maximum revenue that can be raised.

The committee does not discuss this question of whether the German tax burden during the last few years has been commensurate with that of other countries. They do not, however, contend that taxation rates have been unduly low; but they of course point out that during the period of rapidly depreciating currency the direct burden of taxes on the industries of the country was very greatly reduced owing to the changing value of the money between the time the taxes were levied and the date of collection. They also point out that the fixed income and laboring classes suffered a heavy indirect tax burden through the failure of their income to keep pace with rising prices.

The balance of the budget in the future is to be accomplished in the main not through a reduction in expenditures or through an increase in tax rates. The budget improvement is to come from a rapid recovery of German prosperity rather than from noteworthy changes in the tax system. The

estimates are based on the assumption that several essential conditions will be realized. These conditions are as follows:

- (1) That the bank of issue, which would stabilize the currency and serve as a basis for the granting of credit is established and successful.
- (2) That the full development of German economic life should not be restricted by the severance of the Ruhr and Rhineland, and that Germany have complete control of her industrial system.
- (3) That Germany enjoys complete freedom in her economic relations with other countries.
- (4) That Germany completely recovers her economic prosperity.

The first two of these conditions the Committee would regard as fulfilled, if the general recommendations of the report of accepted. The 3<sup>rd</sup>, commercial freedom they understand will be restored under the terms of the Treaty in less than 12 months time.

With reference to the second condition, the Committee is very emphatic. The state:

“We have been unable to find any practical means of ensuring permanent stability in budge and currency under these conditions, (that is with limitations as to Germany’s fiscal and economic lie over part of her area). We have therefore been compelled t make the assumption that the fiscal and economic unity of the Reich will be restored, and our whole report is based on this hypothesis....Our forecasts are based on the assumption that economic activity will be unhampered and unaffected by any foreign organization other than the controls herein provided.”

The fourth assumption underlying the budget, namely, that of complete recovery of German economic prosperity, implies not only the reestablishment of sound conditions within Germany, but also a return of worldwide prosperity and the recovery by Germany of her foreign markets.

The Committee states on this point:

“In order that the restoration of Germany may be definitive, the other nations must also return to the conditions requisite for their financial and economic existence and must likewise be enabled to carry on the normal exchange of goods on which the general prosperity depends....A Germany whose economy had again become flourishing could not long resist a financial and economic crisis in the nations surrounding her.”

The fulfillment of the Committee's estimates thus assumes by implication, a pretty complete recovery of the world from the losses resulting from the world War and the disastrous years that have followed. Among other things it assumes by implication that Russia if not China will be restored within the next few years as a great market for German goods. The estimates are also based on the assumption that the world in general will welcome a rapid return of Germany as a powerful competitor in world markets and will not through trade and tariff policies restrict German international trade. Unless these assumptions are borne out by the events, the budget estimates would, of course, have to be pretty thoroughly revised.

It will be apparent in the light of these assumptions on which the estimates are made that the second taxation principle enunciated may become of more than academic interest. If Germany

does not recover by 1928 or 1929 her full economic prosperity, her indispensable minimum of budget requirements may well equal or exceed the total revenues that can be raised from taxation. If such proves to be the case, then no funds would be paid into the reparation account. To do so would only serve to break down the whole fiscal, currency, and economic system. During the last few years, not of the basic conditions stipulated as essential to a balanced budget has existed. If the principle here enunciated in this connection by the Committee had heretofore been recognized, much of the chaos of the past few years might have been avoided.

A very interesting feature of the plan is the provision that roughly half of the total revenues are to be derived from mortgage bonds of the German railroad system and on industrial enterprise. The railroads are to be operated by a private corporation and 11,000,000,000 gold marks worth of bonds are to be used for reparation purposes. The industries of the country -- excluding agriculture -- are to be mortgaged for 5,000,000,000. The interest on these bonds will be paid directly to the reparation account.

The Committee points out also that the annual reparation payments may be greatly increased by the sale of capital assets in the form of the mortgage bonds delivered to the trustee acting for the Reparation Commission. "As soon as the plan is put into execution, the Reparation Commission will be in possession of bonds for 16,000,000,000 marks, which may be sold to the extent to which the financial markets are capable of absorbing them. Subsequently, bonds representing the

transport tax and the contribution from the budget may be issued, and will enable the government to realize by selling them abroad, the capita of their claim.”

The question may therefore be raised, whether this appropriation of German securities for reparation purposes does not constitute a new method of making payments, namely, that of transferring capital directly to the creditors. There is, in fact, nothing new in this device, for the existing reparation bonds, delivered under the terms of the London Settlement, may also be sold in foreign markets. The fact that in the one case the bonds are obligations of the government, while in the other they are obligations of private citizens in no way changes the nature of the problem. In either case the actual making of payments requires, as the Committee later points out, the shipping of goods by the German people across German borders.

But, it may be asked, are not mortgages on German industries better than the promises of a mere government? The Committee apparently does not hold this to be necessarily true, for it is provided that in case of the default in interest payments on either the railroad or industrial bonds they become the obligations of the German Government.

Having noted the assumptions on which the hopes for increased revenue are based, we may inquire for a moment whether the investigation throws any light on the question as to whether Germany deliberately depreciated the currency. The Committee does not specifically discuss this much debated issue, but the answer to it is implied in their discussion of the budget problem. The

German currency inflation the Committee holds to be inextricably related with budgetary and international trade deficits. The implication of the report is perfectly clear from the preceding quotations that under the disorganized conditions prevailing since the war, a balanced budget and stable currency have been out of the question. During none of the years since the war have the essential conditions, laid down above as a necessary basis for reparation payments, been realized. During the years since the war, however, the German government has been confronted not only with pressing domestic financial requirements, but in addition it has been required to finance reparation deliveries, requisitions and clearing house operation, as well as costs of armies of occupation and of various commissions of control and supervision.

“The Committee has noted the important fact that Germany is not in a position to ascertain her liabilities out of the peace treaty, as demands were made upon her from time to time during the year which cannot be calculated beforehand. It appears to us a matter of impossibility for any budget to be scientifically compiled under such an arrangement, and that; therefore, means should be found to bring this system to an end.”

The system thus denounced is the system which has been in vogue since the end of the war. In view of the pressure for reparation and other payments, it is easy to see why Germany was forced to issue paper marks, not only as a means of meeting domestic requirements, but as a means of meeting foreign obligations. Germany had neither a balanced budget for a balance in her

international trade and financial accounts, both of which the Committee holds to be necessary for the maintenance of currency stability.

Was Germany in involuntary default on reparation payments? The answer to this question is also implied in the above comments. Germany did not have a balanced budget -- and could not have had one under the economic conditions prevailing, and in view of the incessant pressure for reparation, restitution, clearing house and other payments arising under the terms of the Treaty. Moreover, Germany has not had a favorable balance in her international accounts except possibly in the year 1922.

The Committee has taken a courageous and commendable stand in providing that the schedule of payments laid down is all-inclusive. In place of the miscellaneous, not to say heterogeneous, series of obligations for which Germany is liable under the Treaty of Versailles, the Committee of Experts fixes what amount to a single obligation.

“We desire to make it quite clear that the sums denoted above .... Comprise all amounts for which Germany may be liable to the Allied and Associated Powers for the costs arising out of the war, including reparation, restitution, all costs of all armies of occupation, clearing house operations .... Commissions of control, etc. They include also special payments such as those due under Articles 58, 124 and 125 of the Treaty of Versailles .... We venture to emphasize the fact that from the point of view from which we are called upon to regard the question, these

obligations of Germany are one, and that any addition to any category of charges can only be made at the expense of another.”

The Committee, however, takes no stand as to questions of priority between the various categories of charges.

Deliveries in kind are properly held to be identical in effect with cash payments. It is clearly recognized by the Committee that it is impossible to go on making deliveries in kind without regard to financial and international trade considerations.

“We have given special attention to deliveries in kind. In their financial effects deliveries in kind are not really distinguishable from cash payments; and they cannot in the long run exceed the true surplus of German production over consumption available for export without either upsetting the exchanges or rendering foreign loans necessary.”

The sane view is in marked contrast to the practically universal assumption hitherto underlying all public discussions of this question, namely, that no financial or exchange problems are involved in making deliveries in kind -- that all that is necessary is to produce the commodities in question and deliver them. The truth of the matter, of course, is that when Germany defaulted in deliveries in kind, she was able to finance such deliveries only by disastrous inflationary means; and at the time she possessed no export surplus.

While recognizing that in the last analysis deliveries in kind are not different in character from other payments, the Committee, nevertheless, points out the importance of continuing the commodity deliveries directly to the Allies. They emphasize, however, that “Unless they can be confined to natural products of Germany, such as those specifically dealt with in the Treaty (coal, coke, dyestuffs, etc), and, in the second place, to exports which do not entail the previous importation into Germany of a large percentage of their value, they tend to be uneconomic in character.”

An interesting commendable provision in this connection reads as follows:

“The goods supplied by Germany to the creditor countries shall be for the sole use of the countries receiving them and for their internal requirements, including the requirements of their colonies and dependencies. The goods so delivered shall not be exported from the country receiving them and for their internal requirements, including the requirements of their colonies and dependencies. The goods so delivered shall not be exported from the country receiving them, except by agreement between the Transfer Committee, acting unanimously, and the German Government.”

The report sheds light upon one other popular contention. I refer to the contention that the German government has grown rich by obliterating its debts to itself. On this point the Committee states:

“The extinction of the German debt has, after all, been at the expense of her own nationals, who are her taxpayers: They have as holders of German bonds, not only borne the burden which they have escaped as taxpayers, but that which they would have borne in future years to meet the service of the internal debt, if its value had not been destroyed by depreciation .... The loss incurred by individual holders of debt is exactly offset by an increasing profit accruing to the taxpayers as a whole.”

Thus, so far as the nation as a whole is concerned, the practical extinction of the domestic debt has not increased the wealth of the country at all. They contend, however, that the practical elimination of the domestic debt has been of some benefit to the budget for the reason that the process of redistributing the national wealth through inflation has benefitted the rich relatively to the poor, and has thus increased taxing possibilities of the country. While my time does not permit a discussion of this problem, I must state that the Committee presses this point much too far and their own argument is not altogether consistent at different place.

### III. The problem of Transferring Payment to the Creditors:

We find for the first time in any official discussion of the reparation problem a clear recognition of the two-fold nature of the reparation problem, namely: The problem of internal collections and the problem of external transfer. Heretofore, a spokesman for the Reparation Commission or for Allied governments, have merely insisted that the German government should tax its citizens and

deliver the money for the benefit of Allied treasuries. The means by which the payments were actually to be effected was said to be Germany's problem and no concern of the Allies.

“There has been a tendency in the past to confuse 2 distinct though related questions, i.e., first, the amount of revenue which Germany can raise available for reparation account and, second, the amount which can be transferred to foreign countries. The funds raised and transferred to the Allies on reparation account cannot, in the long run, exceed the sums which the balance of payments makes it possible to transfer, without currency and budget instability ensuing. But it is quite obvious that the amount of budget surplus which can be raised by taxation is not limited by the entirely distinct question of the conditions of external transfer. We propose to distinguish sharply between the 2 problems .....In the past the varying conclusions formed as to Germany's capacity have often depended upon which of these 2 methods has been chosen.”

The Committee makes no estimate as to the amount of the favorable balance of payments, or export surplus that can be expected even with a recover of German prosperity. They, therefore, set up no schedule covering the transfer of reparation payments to the Allies. Rather, they state:

“A country's economic balance defies exact calculation .... It depends not upon the decisions of a single governmental authority, but upon the enterprise of individual merchants and manufacturers. Reparation demands themselves will increase it. The extent to which economic adaptation is possible over a long period of years, under the pressure of external obligations, is a matter of conjecture; an existing economic balance, before such obligations have been in

operation long enough to have their effect on the economy of the country, gives a very uncertain criterion. The economic balance is, therefore, by comparison with the budget incapable of close calculation, 'unmanageable' and too elastic. But the limits set by the economic balance, if impossible to exact determination, are real."

The Committee has accordingly set up a very ingenious device for regulating the amount of payments to be made annually by whatever export surplus may develop. The sums collected within the country are to be paid into the bank of issue to the credit of the "Agent for Reparation Payments." This payment constitutes the definite act of the German government and the German railroads and industries in meeting their financial obligations under the plan. The transfer of the funds thus deposited will be controlled by a specially constituted Transfer Committee. This committee will endeavor to regulate the payments in such a manner as to prevent difficulties arising with the foreign exchange and without bringing about instability of currency. The following provision is of paramount importance:

"If the payments by Germany on reparation account, in the long run, exceed the sums that can be thus transferred by deliveries or by purchasing of foreign currencies, they will, of course, begin to accumulate with the bank. Up to a certain point in normal circumstances not exceeding 2,000,000,000 marks, these accumulations will form part of the short money operations of the bank. Beyond this point, the Committee will find employment for such funds in bonds or loans in Germany under the conditions laid down in the Annex, but, for economic and political reasons,

an unlimited accumulation in this form is not contemplated. We recommend that a limit of 5,000,000,000 be placed upon all funds accumulating in the hands of the reparation creditors in Germany. If this limit is reached, the contributions from the budget are to be reduced below the standards set out in our plan, so that they are not in excess of the withdrawals from the account and the accumulation is not further increased. In this contingency, the payments by Germany out of the budget and the transport tax would be reduced until such time as the transfers to the Allies can be increased and the accumulation be reduced below the limit named.”

Thus it will be seen that the exchange and foreign trade side of the problem is placed in a position of controlling importance, and the amount of the export surplus is made the true measure of Germany's capacity to pay. As a year to year proposition and beyond the mean limit - - once the 5,000,000,000 have been accumulated within the country -- the amount that is to be raised within Germany is to be limited by the amount that can be transferred to the creditors. The amount of payments that can be expected out of an export surplus, however, is wholly unpredictable.

While the provision calls for a maximum accumulation in the bank and in the form of investments of 5,000,000,000 gold marks, it is provided that “the Transfer Committee shall have power to suspend accumulation before reaching 5,000,000,000 gold marks, if two-thirds of its members are of the opinion that such accumulation is a menace to the fiscal or economic situation in Germany or to the interests of the creditor countries.”

On the other hand, the Committee may suspend the 5,000,000,000 limit, and allow the accumulation of funds beyond that sum “in the event of concerted financial maneuvers either by the German government or any other group for the purposes of preventing such transfers.”

It is interesting to learn the Committee’s reasons for not beginning their analysis with the foreign trade and exchange side of the problem and stating at the outset that the amount that Germany can pay will depend upon an unpredictable export surplus instead of fixing certain definite sums to be raised within the country. Referring to the transfer problem, they say:

“We do not deny that this part of our proposal will present difficulties of a novel character which can only be solved by experience. But what are the alternatives?”

“In order that no difficulties with exchange or stability can possible arise, the sum payable for reparation may be definitely fixed at such a figure as is certain beyond all doubt to be within Germany’s capacity to export in excess of her imports. In this case the attainment of such certainty would involve so low a figure as to be quite unacceptable to her creditors and unwarrantably favorable to Germany.

“On the other hand the liability may be fixed without regard to that excess of exports at all, and the discharge of the liability left to uncontrolled events without any possible regard to exchange difficulties. That way lies future instability and disaster.

“We are convinced that some kind of co-coordinated policy with continuous expert administration in regard to the exchange, lies at the root of the reparation problem and is essential to any practicable scheme of obtaining the maximum sums from Germany for the benefit of the Allies.”

The Committee thus makes the exchange and foreign trade problem the crux of the whole problem. One should, therefore, not take too seriously the sums estimated as possible of procurement with the country. The really important issue is whether Germany can produce for export equivalent sums over and above her own indispensable minimum of imports. And whether, if she can, the creditor countries and other nations are able and willing to purchase such exports in the quantities required. The committee brings the discussion up to this point only to drop it like a stick of dynamite.

The future of reparation payments then depends upon the possibilities of an export surplus. We have seen that the Committee expresses no conviction on this subject. They content themselves with pointing out that the course of events along will determine the amount that can be paid by

means of an export surplus. I trust I may be pardoned if I take this occasion to congratulate myself for having arrived at identical conclusions in my own study of the reparation problem. In conclusion I should like to say a few words with reference to one phase of the report which will be criticized by certain economists of a highly theoretical turn of mind. There are a few economists who refuse to admit that the budget problem of transferring the reparation funds to the creditors is a separate and distinct problem from that of raising the money within the country. They contend that an export surplus will automatically develop through the free play of economic forces. According to this theory a depreciation of the foreign exchanges would make Germany a good market in which to buy. As a result the exporting industries would be greatly stimulated; the importing industries would be greatly depressed, and with exports expanded and no imports coming into the country an export surplus practically as large as necessary would develop. Now, there is no doubt on the first point, namely, that a depreciation of the exchanges makes Germany a cheap market in which to buy and a dear market in which to sell. This is, of course, the very situation which we have had during the last five years. But the surplus of exports has not automatically developed. The explanation is simple: Germany does not have a group of exporting industries which are separate and distinct from importing industries. Nor is it possible for exports to be greatly expanded, with no import coming in. The assumption underlying the analysis is wholly without foundation. From 80 to 85% of all of Germany's imports are composed of foodstuffs and raw materials which cannot possibly be dispensed with if the German population is to survive, and the German industrial system is to function. Industrial Germany consists of a group of factories. The materials which feed these factories must be largely

imported, and the bulk of the working population which operates the factories must be fed on imported foodstuff. One might just as well argue that a factory in New York could expand its output of finished product with no raw materials entering the factory, and no laborers to operate it, as to contend that the German group of factories which make up the German industrial system could expand exports with imports of food and raw materials eliminated, or even curtailed.

In my analysis while not contending that depreciated exchanges may tend to stimulate exports of certain kinds and curtail imports of certain kinds, I have endeavored to appraise the technological considerations involved, and to measure the extent to which the trade balance may be expected to increase. By this I mean that I have sought to obtain the minimum of imports which Germany must have and to indicate so far as is possible, the technical and trade considerations which will control the extent of the export surplus. On the one hand there is the question of the extent to which the raw materials may be increased in value in the process of fabrication. It will be noted that to derive a net profit the increase in value between raw materials and finished products must be in excess of the cost of the imported foodstuffs required for the factory workers. On the other hand, the volume of exports that may be shipped out of the country depends in part upon the price at which the goods can be offered in competitive markets and in part upon the buying capacity and the restrictive trade policies of foreign countries. Since these external factors are wholly beyond Germany's control, it is to be concluded that no one could possibly say what total of reparation payments, as measured by the export surplus, Germany could make.

Recent experience certainly furnishes no support to the argument that depreciated exchanges and low prices in Germany will automatically create an export surplus. All the conditions requisite for the working of the so called automatic machinery were in existence in 1920 and 1921, for example. Reparation payments of considerable volume were being made. The exchanges were depreciated, and this, together with low wages, low transportation rates and industrial subsidies, mad prices very low in Germany relatively to other countries. Yet an export surplus did not develop.

The controlling factors were rather the general economic disorganization, on the one hand, of world markets, and, on the other hand, of Germany's internal situation, due primarily to an insistent pressure for payments when Germany had no export or other surplus out of which payments could normally be made. The Committee has rendered a signal service in stating in plain terms that to fix the obligations without regard to the excess of exports and to leave the discharge of the obligation to uncontrolled events is to invite once more instability and disaster.

In conclusion I present for your consideration what I regard as the most important reparation issue and the most pertinent feature of the expert's plan.

What will be the attitude of the Allied countries and the world in general toward an expansion of German exports? Emergency tariffs, anti-dumping laws, and safe-guarding of industry acts, designed particularly to combat the Germany export menace, have thus far been the striking

features of post-war commercial legislation. Will the nations in whose markets Germany must sell her goods, if she is to procure the means of payments, endeavor to prevent such sales in the interest of their own industries?

If such proves to be the case, Germany, under the plan is not to be held accountable for a failure to pay. The payment into the reparation account constitutes the definite act of the German government in meeting its financial obligations under the plan. The delivery problem is primarily the concern of the Transfer Committee and the Allied nations themselves.

In brief, if Germany cannot raise, with honest effort, the sums required without disorganizing her whole fiscal currency and economic machinery, with resulting chaotic conditions, not only in Germany but in other countries, then payments are to be temporarily suspended. If Germany can raise the sums and deliver the tangible wealth required, and her creditors are willing to receive it, they will get it. If, on the other hand, Germany can deliver the tangible wealth but the creditors are unwilling to receive it through fear of trade and industrial consequences, then Germany is to be excused from further payments. I confess that this sounds to me like good horse sense.

(Applause)