

IN VIEW OF OUR DEBTS TO AMERICA¹

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NOT long ago the British Chancellor of the Exchequer pointed out in an address to the House of Commons that fully sixty per cent of the Reparations payments received from Germany was crossing the Atlantic. Thus the United States, already glutted with gold and a huge trade-balance, witnesses this new river of wealth flowing steadily to its shores from the impoverished continent of Europe.

America's leading publicists, industrialists, and financiers wish to see the Interallied debts canceled, or at least scaled down to the lowest possible amount. But the average American taxpayer, who would have to go down into his own pocket to pay the interest and principal of the eleven billion dollars more or less that his Government has lent to the Governments of Europe, will not listen to the suggestion that he present that enormous sum to what he considers a parcel of turbulent, acrimonious, trouble-hunting foreign Powers.

Of course, the Washington Government might put this poser to its great industrialists and bankers: Why don't you yourselves reimburse the people of the United States for the eleven billion dollars they have advanced to Europe through the Federal Treasury, and then cancel the debts of those

Powers, so as to escape the dangers with which these obligations in their present form threaten you?

Put in that way, the question covers both aspects of the problem, for these debt payments are a matter to be adjusted, not only between nations, but also between different groups of people within each nation.

Mr. Gilbert's report on the first year's operation of the Dawes Plan is illuminating in this connection. First of all, why has the United States Government persistently refused to allow Germany's payments to the Allies to be tied up with her claims against the Allied Governments? At first blush we might assume that this was merely a question of definition, because the American Government, in presenting its bill to the Allies, has always acted on the basis of their capacity to pay; and the Reparations they receive from Germany are unquestionably a factor in their capacity to pay. But on closer scrutiny we discover that this refusal is based on something more than a mere quibble over words. Assume that the Allies were to transfer to the United States their claims against Germany, and that Germany thus found herself facing the formidable, and probably impossible, task of transferring to a single nation one billion gold marks annually at first, and then progressively larger sums, until a maximum of two and one-half billion gold marks was reached. The Allies would then be able to adopt any commercial or fiscal measures they saw fit to defend them-

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selves against a possible invasion of German goods, and would thus escape all the embarrassing liabilities associated with future Reparations transfers. As things are at present, Germany distributes her payments among six or seven States, each of which, under the compulsion of its debt to America, is forced to receive them and to solve for itself the problem of transmitting the proceeds to the United States. By thus subdividing the transfers among several nations, the task of each one is greatly lightened, and each is able to adjust its commercial and industrial machinery to the necessities of its particular situation. The burden of transferring those payments to America, instead of falling upon a single country, is distributed among at least four principal debtors, England, France, Belgium, and Italy, who can employ the proceeds of their own trade, and of the services they render in all parts of the world, to meeting their obligations to America. This not only makes the transaction less impracticable, but permits its accomplishment with less disturbance to world economy and to international exchange.

But there is a second point involved here. The method adopted by the United States leaves each of the debtor countries in full control of its own monetary and customs policies. Germany is now paying almost entirely in goods. This is shown clearly in the report of the officers administering the Dawes Plan for the first five months of the second year. Now the Allied Powers — except Italy, where the facts are not fully reported — turn over these German products to groups of industrialists in their own country, usually at much lower prices than those at which they are credited to Germany. For example, if the Reparations Germany pays in the form of coal, chemicals, and machinery are valued in the

world market at one hundred, the Allied Governments credit her with one hundred on her Reparations payments, but they may actually receive only eighty per cent of that sum, because of the discount they allow to the domestic purchasers who buy these goods from them. This difference arises from the fact that gold prices in the domestic market of a country with a depreciated currency are lower than they are in the international market, and that Germany's deliveries are necessarily credited to her at the international market rate.

In this way the added protection that a depreciated currency gives to the domestic industries of a debtor country is counterbalanced in the final accounting by the increment thus added to that country's debts to America.

But take a case where the price of German goods is lower than the price of similar goods produced in the protected domestic market of a State receiving payments from Germany. In that case the Government can sell this German merchandise at its par value — that is, at the price at which it credits it to Germany — without doing serious harm to its own producers. In fact, the Government may be able to dispose of such goods at a profit above the price at which it receives them, thus directly benefiting by its protective policy. But whichever situation may prevail in any of the countries owing money to the United States, the latter collects its obligations at par and is not affected by the tariff and currency policies of those nations.

A third important factor also enters into this relationship. American bankers have advanced huge credits to European Governments and private borrowers, either directly out of their own resources or as underwriters marketing foreign securities to the Amer-

ican public. The sum total of these advances is mounting rapidly. American investors are said thus to have lent fully a billion dollars to Germany alone. Operations on so large a scale as this ordinarily result in a great extension of banking credit. European borrowers have begun to resort regularly to the American money market for accommodation. That market is called upon to underwrite Europe's commercial operations, to furnish her liquid capital, to float new companies, to finance trade between Europe and America and between Europe and the Orient, and so on. The United States has thus acquired a strong hold upon European industry, and in connection with this hold new responsibilities and risks.

Now, if American savings continue to be invested upon this extensive scale in European enterprises, an interesting rivalry is sure to develop between the Treasury at Washington and the financiers in Wall Street. When Italy, France, and England are paying the maximum annual installment on their debts, America will receive from us about \$360,000,000 gold annually. Europe will never be able to pay this sum unless her factories and fields are operated with the utmost economy and efficiency, and with a minimum profit, after taxes are paid, to the owners. But American citizens will be heavily interested in the earnings of these foreign companies. Whatever the Washington Government collects from European treasuries will thus be taken out of these American investors' profits, in the form of taxes levied by European Governments upon the enterprises in which the latter are interested in order to pay their public obligations to the Treasury of the United States.

A third element in the Interallied debt situation threatens to sow dissension between different interests in

America. Her consumers are likely to favor the importation of cheap merchandise from abroad, while her manufacturers and bankers will bitterly oppose this competition. The only way to reconcile that divergence of interests will be for Americans to reinvest in foreign enterprises the profits they receive from capital placed abroad — a policy that will steadily increase their preponderance in the economic life of Europe.

On the other hand, it is as erroneous as it is ingenuous to jump at the conclusion that the only way to cut this Gordian knot is to cancel Germany's debts to the Allies and the Allies' debts to England and the United States. There are three reasons why this is impracticable. In the first place, France's claims against Germany exceed her debts to England and America. In the second place, such a solution, if adopted now, would make Germany the real winner in the war; for she has a more efficient industrial plant, a better business organization, and a more stable monetary system than any of her rivals. Moreover, she has wiped out her domestic debt, and would enjoy the advantage of lower taxes than her competitors. In the third place, as I pointed out at the beginning, the result of this would be to benefit American financiers who have heavy loans on their private account abroad, at the cost of American taxpayers, who would then have to pay out of their own pockets the interest and principal of the money borrowed by their Government to lend to Europe.

Still another aspect of this broad question, and one that is often overlooked, thrusts itself upon our attention. The history of the rise and fall of nations, and of the successive supremacy of one country or of one continent over its neighbors, shows

that intellectual values count quite as much as material resources in international competition, and that the sceptre eventually passes to the country that is best able to combine vast wealth with cultural progress. Industrial and commercial expansion is the product of three factors: of the discoveries that pure science makes in the laboratory, and generally bestows gratuitously upon the world; of the volume of production, which, when it reaches a certain level, enables all the people of a country to enjoy a high standard of living, and thus reduces the likelihood of class conflicts; and of the constantly increasing number and variety of physical and intellectual needs that this ever-augmenting wealth enables the people to gratify.

To-day, and ever since the beginning of the World War, the people of America have been advancing in these respects, while Continental Europe has stood still or retrograded. We read, or hear from our colleagues across the water, with a feeling of appreciative envy, what they are doing over there for education, for the refinement of living, for the welfare of their teachers, for the extension of libraries, laboratories, and research institutions to promote the physical and social sciences. Great captains of industry and finance rival each other in founding technical and business schools, in establishing new chairs at universities, and in providing endowments to support special studies and lines of research and to enable investigators to travel all over the world in the quest of knowledge. The effect of all this is cumulative. We behold American scholars and scientists invading with the élan of a young and optimistic race

every field of inquiry and learning and competing with the greatest names of ancient Europe.

We fail to realize fully how profound the changes now occurring are, because our old continent is still filled with scholars and students who are a product of the wealth and ease we enjoyed before the war. They still survive, resigned to continue their old pursuits in honorable poverty. But the climate of post-war Europe has changed. It has now become so difficult for us to earn a living, the value of material things has been so emphasized in our lives, that the younger generation naturally asks itself whether it is not better to devote the energy and the genius that would have given its members distinction in the arts and sciences to acquiring a material competence, which now seems the only guaranty of individual independence.

Confronting a Europe impoverished and divided against itself, the American Union automatically attracts our gold and our wealth without specially desiring to do so — by the mere operation of economic law. Its people live in the free air of a boundless territory almost as large as our continent, and even larger when we consider that Canada is economically a territorial extension of the United States. Living as they do between two oceans, her sons naturally think imperially. Their interests are becoming world-wide; they possess a home market covering an area of more than three million square miles, and inhabited by 120,000,000 people. Assured, therefore, of material abundance and of financial world supremacy, they now seek new fields to conquer in the realms of art and science.

THE STATUS OF RUSSIAN PETROLEUM¹

BY AN AMSTERDAM CORRESPONDENT

AFTER the negotiations undertaken at Genoa and The Hague in 1922 for Russia's recognition by Western Europe, the settlement of her foreign debts, and the restoration to their original owners of concessions granted by her former Government, had finally broken down, Moscow's petroleum policy entered a new phase. Prior to this the Standard Oil group, alarmed by the publication of a proposed agreement which gave its Royal Shell rival a practical monopoly of the Russian fields, had got into action, and a syndicate to defend the interests of French and Belgian investors in the Russian oil industry had been organized. At The Hague an agreement was reached by the Royal Shell group, the Noble interests controlled by the Standard Oil, and the Franco-Belgian Syndicate, which resulted in the formation of the International Association of Petroleum Companies in Russia, which was designed to deal as a unit with the Russian Government regarding its members' respective claims in that country.

Less than two years later, after its representatives had tried repeatedly to reach an agreement with the Soviet authorities, this Association went to pieces. That was not on account of the rivalry between the Standard Oil and the Royal Shell groups, for they were working hand in hand so far as Russia was concerned, but because a conflict of interests had arisen between the

Franco-Belgian shareholders and the British, Dutch, Russian, and American producers. The latter were chiefly interested in securing the right to operate again in Russia and in extending their concessions in that country, while the Franco-Belgian shareholders wanted to get some sort of settlement that would boom their stocks. Consequently the Franco-Belgian group was not particularly interested in new concessions of the sort its associates were seeking, which would benefit principally the latter.

The Soviet Government, notwithstanding the demoralized condition of its petroleum industry at the time, took shrewd advantage of this discord. The men at Moscow were chiefly interested in getting capital to develop and work the wells under their direct control. The only way to do so was to sell oil abroad, for the domestic market brought them little net return. Large foreign sales were impossible, both on account of the opposition of the great petroleum groups just mentioned and on account of inadequate production at home. So the Soviet Government began making small sales to foreign purchasers whenever an opportunity offered. Thus they gradually worked up a business large enough to worry the Royal Shell and Standard Oil interests, and to induce them to buy more freely directly from Soviet stocks. This policy accomplished its object. A big contract for deliveries to the Royal Shell people, which the latter defended, with the argument that it was made in

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