

Space for notes



***The Economic Consequences of the Peace***  
**by John Maynard Keynes**  
**1919**

**Chapter 5: Reparations**

**I. Undertakings Given Prior to the Peace Negotiations**

The categories of damage in respect of which the Allies were entitled to ask for reparation are governed by the relevant passages in President Wilson's Fourteen Points of 8 January 1918, as modified by the Allied governments in their qualifying Note, the text of which the President formally communicated to the German government as the basis of peace on 5 November 1918. These passages have been quoted in full at the beginning of chapter 4. That is to say, 'compensation will be made by Germany for all damage done to the civilian population of the Allies and to their property by the aggression of Germany by land, by sea, and from the air.' The limiting quality of this sentence is reinforced by the passage in the President's speech before Congress on 11 February 1918 (the terms of this speech being an express part of the contract with the enemy), that there shall be 'no contributions' and 'no punitive damages'.

It has sometimes been argued that the preamble to paragraph 19(1\*) of the armistice terms, to the effect 'that any future claims and demands of the Allies and the United States of America remain unaffected,' wiped out all precedent conditions, and left the Allies free to make whatever demands they chose. But it is not possible to maintain that this casual protective phrase, to which no one at the time attached any particular importance, did away with all the formal communications which passed between the President and the German government as to the basis of the terms of peace during the days preceding the armistice, abolished the Fourteen Points, and converted the German acceptance of the armistice terms into unconditional surrender, so far as affects the financial clauses. It is merely the usual phrase of the draftsman who, about to rehearse a list of certain claims, wishes to guard himself from the implication that such a list is exhaustive. In any case this contention is disposed of by the Allied reply to the German observations on the first draft of the treaty, where it is admitted that the terms of the reparation chapter must be governed by the President's Note of 5 November.

Assuming then that the terms of this Note are binding, we are left to elucidate the precise force of the phrase -- 'all damage done to the civilian population of the Allies and to their property by the aggression of Germany by land, by sea, and from the air'. Few sentences in history have given so much work to the sophists and the lawyers, as we shall see in the next section of this chapter, as this apparently simple and unambiguous statement. Some have not scrupled to argue that it covers the entire cost of the war; for, they point out, the entire cost of the war has to be met by taxation, and such taxation is 'damaging to the civilian population'. They admit that the phrase is cumbrous, and that it would have been simpler to have said 'all loss and expenditure of whatever description'; and they allow that the apparent emphasis on damage to the persons and property of *civilians* is unfortunate; but errors of draftsmanship should not, in their opinion, shut off the Allies from the rights inherent in victors.

But there are not only the limitations of the phrase in its natural meaning and the

emphasis on civilian damages as distinct from military expenditure generally; it must also be remembered that the context of the term is in elucidation of the meaning of the term 'restoration' in the President's Fourteen Points. The Fourteen Points provide for damage in invaded territory -- Belgium, France, Roumania, Serbia, and Montenegro (Italy being unaccountably omitted) -- but they do not cover losses at sea by submarine, bombardments from the sea (as at Scarborough), or damage done by air raids. It was to repair these omissions, which involved losses to the life and property of civilians not really distinguishable in kind from those effected in occupied territory, that the Supreme Council of the Allies in Paris proposed to President Wilson their qualifications. At that time -- the last days of October 1918 -- I do not believe that any responsible statesman had in mind the exaction from Germany of an indemnity for the general costs of the war. They sought only to make it clear (a point of considerable importance to Great Britain) that reparation for damage done to non-combatants and their property was not limited to invaded territory (as it would have been by the Fourteen Points unqualified), but applied equally to all such damage, whether 'by land, by sea, or from the air'. It was only at a later stage that a general popular demand for an indemnity, covering the full costs of the war, made it politically desirable to practice dishonesty and to try to discover in the written word what was not there.

What damages, then, can be claimed from the enemy on a strict interpretation of our engagements?(2\*) In the case of the United Kingdom the bill would cover the following items --

(a) Damage to civilian life and property by the acts of an enemy government, including damage by air raids, naval bombardments, submarine warfare, and mines.

(b) Compensation for improper treatment of interned civilians.

It would not include the general costs of the war or (e.g.) indirect damage due to loss of trade.

The French claim would include, as well as items corresponding to the above --

(c) Damage done to the property and persons of civilians in the war area, and by aerial warfare behind the enemy lines.

(d) Compensation for loot of food, raw materials, livestock, machinery, household effects, timber, and the like by the enemy governments or their nationals in territory occupied by them.

(e) Repayment of fines and requisitions levied by the enemy governments or their officers on French municipalities or nationals.

(f) Compensation to French nationals deported or compelled to do forced labour.

In addition to the above there is a further item of more doubtful character, namely --

(g) The expenses of the relief commission in providing necessary food and clothing to maintain the civilian French population in the enemy-occupied districts.

The Belgian claim would include similar items.(3\*) If it were argued that in the case of Belgium something more nearly resembling an indemnity for general war costs can be justified, this could only be on the ground of the breach of international law involved in the invasion of Belgium, whereas, as we have seen, the Fourteen Points include no special demands on this ground.(4\*) As the cost of Belgian relief

under (g), as well as her general war costs, has been met already by advances from the British, French, and United States governments, Belgium would presumably employ any repayment of them by Germany in part discharge of her debt to these governments, so that any such demands are, in effect, an addition to the claims of the three lending governments.

The claims of the other Allies would be compiled on similar lines. But in their case the question arises more acutely how far Germany can be made contingently liable for damage done, not by herself, but by her co-belligerents, Austria-Hungary, Bulgaria, and Turkey. This is one of the many questions to which the Fourteen Points give no clear answer; on the one hand, they cover explicitly in point II damage done to Roumania, Serbia, and Montenegro, without qualification as to the nationality of the troops inflicting the damage; on the other hand, the Note of the Allies speaks of 'German' aggression when it might have spoken of the aggression of 'Germany and her allies'. On a strict and literal interpretation, I doubt if claims lie against Germany for damage done, e.g. by the Turks to the Suez Canal, or by Austrian submarines in the Adriatic. But it is a case where, if the Allies wished to strain a point, they could impose contingent liability on Germany without running seriously contrary to the general intention of their engagements.

As between the Allies themselves the case is quite different. It would be an act of gross unfairness and infidelity if France and Great Britain were to take what Germany could pay and leave Italy and Serbia to get what they could out of the remains of Austria-Hungary. As amongst the Allies themselves it is clear that assets should be pooled and shared out in proportion to aggregate claims.

In this event, and if my estimate is accepted, as given below, that Germany's capacity to pay will be exhausted by the direct and legitimate claims which the Allies hold against her, the question of her contingent liability for her allies becomes academic. Prudent and honourable statesmanship would therefore have given her the benefit of the doubt, and claimed against her nothing but the damage she had herself caused.

What, on the above basis of claims, would the aggregate demand amount to? No figures exist on which to base any scientific or exact estimate, and I give my own guess for what it is worth, prefacing it with the following observations.

The amount of the material damage done in the invaded districts has been the subject of enormous, if natural, exaggeration. A journey through the devastated areas of France is impressive to the eye and the imagination beyond description. During the winter of 1918-19, before Nature had cast over the scene her ameliorating mantle, the horror and desolation of war was made visible to sight on an extraordinary scale of blasted grandeur. The completeness of the destruction was evident. For mile after mile nothing was left. No building was habitable and no field fit for the plough. The sameness was also striking. One devastated area was exactly like another -- a heap of rubble, a morass of shell-holes, and a tangle of wire.<sup>(5\*)</sup> The amount of human labour which would be required to restore such a countryside seemed incalculable; and to the returned traveller any number of milliards of pounds was inadequate to express in matter the destruction thus impressed upon his spirit. Some governments for a variety of intelligible reasons have not been ashamed to exploit these feelings a little.

Popular sentiment is most at fault, I think, in the case of Belgium. In any event Belgium is a small country, and in its case the actual area of devastation is a small proportion of the whole. The first onrush of the Germans in 1914 did some damage locally; after that the battle-line in Belgium did not sway backwards and forwards,

as in France, over a deep belt of country. It was practically stationary, and hostilities were confined to a small corner of the country, much of which in recent times was backward, poor, and sleepy, and did not include the active industry of the country. There remains some injury in the small flooded area, the deliberate damage done by the retreating Germans to buildings, plant, and transport, and the loot of machinery, cattle, and other movable property. But Brussels, Antwerp, and even Ostend are substantially intact, and the great bulk of the land, which is Belgium's chief wealth, is nearly as well cultivated as before. The traveller by motor can pass through and from end to end of the devastated area of Belgium almost before he knows it; whereas the destruction in France is on a different kind of scale altogether. Industrially, the loot has been serious and for the moment paralysing; but the actual money cost of replacing machinery mounts up slowly, and a very few tens of millions would have covered the value of every machine of every possible description that Belgium ever possessed. Besides, the cold statistician must not overlook the fact that the Belgian people possess the instinct of individual self-protection unusually well developed; and the great mass of German bank-notes (6\*) held in the country at the date of the armistice shows that certain classes of them at least found a way, in spite of all the severities and barbarities of German rule, to profit at the expense of the invader. Belgian claims against Germany such as I have seen, amounting to a sum in excess of the total estimated pre-war wealth of the whole country, are simply irresponsible.(7\*)

It will help to guide our ideas to quote the official survey of Belgian wealth published in 1913 by the Finance Ministry of Belgium, which was as follows:

	Million £
Land	264
Buildings	235
Personal wealth	545
Cash	17
Furniture	120
Total	1,181

This total yields an average of £156 per inhabitant, which Dr Stamp, the highest authority on the subject, is disposed to consider as *prima facie* too low (though he does not accept certain much higher estimates lately current), the corresponding wealth per head (to take Belgium's immediate neighbours) being £167 for Holland, £244 for Germany, and £303 for France.(8\*) A total of £1,500 million, giving an average of about £200 per head, would, however, be fairly liberal. The official estimate of land and buildings is likely to be more accurate than the rest. On the other hand, allowance has to be made for the increased costs of construction.

Having regard to all these considerations, I do not put the money value of the actual *physical* loss of Belgian property by destruction and loot above £150 million *as a maximum*, and while I hesitate to put yet lower an estimate which differs so widely from those generally current, I shall be surprised if it proves possible to substantiate claims even to this amount. Claims in respect of levies, fines, requisitions, and so forth might possibly amount to a further £100 million. If the sums advanced to Belgium by her allies for the general costs of the war are to be included, a sum of about £250 million has to be added (which includes the cost of relief), bringing the total to £500 million.

The destruction in France was on an altogether more significant scale, not only as regards the length of the battle-line, but also on account of the immensely deeper area of country over which the battle swayed from time to time. It is a popular delusion to think of Belgium as the principal victim of the war; it will turn out, I believe, that taking account of casualties, loss of property, and burden of future debt, Belgium has made the least relative sacrifice of all the belligerents except the

United States. Of the Allies, Serbia's sufferings and loss have been proportionately the greatest, and after Serbia, France. France in all essentials was just as much the victim of German ambition as was Belgium, and France's entry into the war was just as unavoidable. France, in my judgment, in spite of her policy at the peace conference, a policy largely traceable to her sufferings, has the greatest claims on our generosity.

The special position occupied by Belgium in the popular mind is due, of course, to the fact that in 1914 her sacrifice was by far the greatest of any of the Allies. But after 1914 she played a minor role. Consequently, by the end of 1918, her relative sacrifices, apart from those sufferings from invasion which cannot be measured in money, had fallen behind, and in some respects they were not even as great as, for example, Australia's. I say this with no wish to evade the obligations towards Belgium under which the pronouncements of our responsible statesmen at many different dates have certainly laid us. Great Britain ought not to seek any payment at all from Germany for herself until the just claims of Belgium have been fully satisfied. But this is no reason why we or they should not tell the truth about the amount.

While the French claims are immensely greater, here too there has been excessive exaggeration, as responsible French statisticians have themselves pointed out. Not above 10% of the area of France was effectively occupied by the enemy, and not above 4% lay within the area of substantial devastation. Of the sixty French towns having a population exceeding 35,000, only two were destroyed -- Reims (115,178) and St. Quentin (55,571); three others were occupied -- Lille, Roubaix, and Douai -- and suffered from looting of machinery and other property, but were not substantially injured otherwise. Amiens, Calais, Dunkerque, and Boulogne suffered secondary damage by bombardment and from the air; but the value of Calais and Boulogne must have been increased by the new works of various kinds erected for the use of the British army.

The *Annuaire statistique de la France*, 1917, values the entire house property of France at £2,380 million (59.5 milliard francs).<sup>(9\*)</sup> An estimate current in France of £800 million (20 milliard francs) for the destruction of house property alone is, therefore, obviously wide of the mark.<sup>(10\*)</sup> £120 million at pre-war prices, or say £250 million at the present time, is much nearer the right figure. Estimates of the value of the land of France (apart from buildings) vary from £2,480 million to £3,116 million, so that it would be extravagant to put the damage on this head as high as £100 million. Farm capital for the whole of France has not been put by responsible authorities above £420 million.<sup>(11\*)</sup> There remain the loss of furniture and machinery, the damage to the coal-mines and the transport system, and many other minor items. But these losses, however serious, cannot be reckoned in value by hundreds of millions sterling in respect of so small a part of France. In short, it will be difficult to establish a bill exceeding £3500 million, for *physical and material damage* in the occupied and devastated areas of northern France.<sup>(12\*)</sup> I am confirmed in this estimate by the opinion of M. René Pupin, the author of the most comprehensive and scientific estimate of the pre-war wealth of France,<sup>(13\*)</sup> which I did not come across until after my own figure had been arrived at. This authority estimates the material losses of the invaded regions at from £400 million to £600 million (10 to 15 milliards),<sup>(14\*)</sup> between which my own figure falls half-way.

Nevertheless, M. Dubois, speaking on behalf of the budget commission of the Chamber, has given the figure of £2,600 million (65 milliard francs) 'as a minimum' without counting 'war levies, losses at sea, the roads, or the loss of public monuments'. And M. Loucheur, the Minister of Industrial Reconstruction, stated

before the Senate on 17 February 1919 that the reconstitution of the devastated regions would involve an expenditure of £3,000 million (75 milliard francs) -- more than double M. Pupin's estimate of the entire wealth of their inhabitants. But then at that time M. Loucheur was taking a prominent part in advocating the claims of France before the peace conference, and, like others, may have found strict veracity inconsistent with the demands of patriotism.(15\*)

The figure discussed so far is not, however, the totality of the French claims. There remain, in particular, levies and requisitions on the occupied areas and the losses of the French mercantile marine at sea from the attacks of German cruisers and submarines. Probably £200 million would be ample to cover all such claims but to be on the safe side, we will, somewhat arbitrarily, make an addition to the French claim of £300 million on all heads, bringing it to £800 million in all.

The statements of M. Dubois and M. Loucheur were made in the early spring of 1919. A speech delivered by M. Klotz before the French Chamber six months later (5 September 1919), was less excusable. In this speech the French Minister of Finance estimated the total French claims for damage to property (presumably inclusive of losses at sea, etc., but apart from pensions and allowances) at £5,360 million (134 milliard francs), or more than six times my estimate. Even if my figure proves erroneous, M. Klotz's can never have been justified. So grave has been the deception practised on the French people by their ministers that when the inevitable enlightenment comes, as it soon must (both as to their own claims and as to Germany's capacity to meet them), the repercussions will strike at more than M. Klotz, and may even involve the order of government and society for which he stands.

British claims on the present basis would be practically limited to losses by sea-losses of hulls and losses of cargoes. Claims would lie, of course, for damage to civilian property in air raids and by bombardment from the sea, but in relation to such figures as we are now dealing with, the money value involved is insignificant - £5 million might cover them all, and £10 million would certainly do so.

The British mercantile vessels lost by enemy action, excluding fishing vessels, numbered 2,479, with an aggregate of 7,759,090 tons gross.(16\*) There is room for considerable divergence of opinion as to the proper rate to take for replacement cost; at the figure of £30 per gross ton, which with the rapid growth of shipbuilding may soon be too high but can be replaced by any other which better authorities(17\*) may prefer, the aggregate claim is £230 million. To this must be added the loss of cargoes, the value of which is almost entirely a matter of guesswork. An estimate of £40 per ton of shipping lost may be as good an approximation as is possible, that is to say £310 million, making £540 million altogether.

An addition to this of £30 million, to cover air raids, bombardments, claims of interned civilians, and miscellaneous items of every description, should be more than sufficient -- making a total claim for Great Britain of £570 million. It is surprising, perhaps, that the money value of our claim should be so little short of that of France and actually in excess of that of Belgium. But, measured either by pecuniary loss or real loss to the economic power of the country, the injury to our mercantile marine was enormous.

There remain the claims of Italy, Serbia, and Roumania for damage by invasion and of these and other countries, as for example Greece,(18\*) for losses at sea. I will assume for the present argument that these claims rank against Germany, even when they were directly caused not by her but by her allies; but that it is not

proposed to enter any such claims on behalf of Russia.(19\*) Italy's losses by invasion and at sea cannot be very heavy, and a figure of from £50 million to £100 million would be fully adequate to cover them. The losses of Serbia, although from a human point of view her sufferings were the greatest of all,(20\*) are not measured pecuniarily by very great figures, on account of her low economic development. Dr Stamp (loc. cit.) quotes an estimate by the Italian statistician Maroi, which puts the national wealth of Serbia at £480 million or £105 per head,(21\*) and the greater part of this would be represented by land which has sustained no permanent damage.(22\*) In view of the very inadequate data for guessing at more than the general magnitude of the legitimate claims of this group of countries, I prefer to make one guess rather than several and to put the figure for the whole group at the round sum of £250 million.

We are finally left with the following --

	Million £
Belgium	500 (23*)
France	800
Great Britain	570
Other Allies	250
Total	2,120

I need not impress on the reader that there is much guesswork in the above, and the figure for France in particular is likely to be criticised. But I feel some confidence that the *general magnitude*, as distinct from the precise figures, is not hopelessly erroneous; and this may be expressed by the statement that a claim against Germany, based on the interpretation of the pre-armistice engagements of the Allied Powers which is adopted above, would assuredly be found to exceed £1,600 million and to fall short of £3,000 million.

This is the amount of the claim which we were entitled to present to the enemy. For reasons which will appear more fully later on, I believe that it would have been a wise and just act to have asked the German government at the peace negotiations to agree to a sum of £2,000 million in final settlement without further examination of particulars. This would have provided an immediate and certain solution, and would have required from Germany a sum which, if she were granted certain indulgences, it might not have proved entirely impossible for her to pay. This sum should have been divided up amongst the Allies themselves on a basis of need and general equity.

But the question was not settled on its merits.

## II. The Conference and the Terms of the Treaty

I do not believe that, at the date of the armistice, responsible authorities in the Allied countries expected any indemnity from Germany beyond the cost of reparation for the direct material damage which had resulted from the invasion of Allied territory and from the submarine campaign. At that time there were serious doubts as to whether Germany intended to accept our terms, which in other respects were inevitably very severe, and it would have been thought an unstatesmanlike act to risk a continuance of the war by demanding a money payment which Allied opinion was not then anticipating and which probably could not be secured in any case. The French, I think, never quite accepted this point of view; but it was certainly the British attitude; and in this atmosphere the pre-armistice conditions were framed.

A month later the atmosphere had changed completely. We had discovered how

hopeless the German position really was, a discovery which some, though not all, had anticipated, but which no one had dared reckon on as a certainty. It was evident that we could have secured unconditional surrender if we had determined to get it.

But there was another new factor in the situation which was of greater local importance. The British Prime Minister had perceived that the conclusion of hostilities might soon bring with it the break-up of the political bloc upon which he was depending for his personal ascendancy, and that the domestic difficulties which would be attendant on demobilisation, the turnover of industry from war to peace conditions, the financial situation, and the general psychological reactions of men's minds, would provide his enemies with powerful weapons, if he were to leave them time to mature. The best chance, therefore, of consolidating his power, which was personal and exercised, as such, independently of party or principle to an extent unusual in British politics, evidently lay in active hostilities before the prestige of victory had abated, and in an attempt to found on the emotions of the moment a new basis of power which might outlast the inevitable reactions of the near future. Within a brief period, therefore, after the armistice, the popular victor, at the height of his influence and his authority, decreed a general election. It was widely recognised at the time as an act of political immorality. There were no grounds of public interest which did not call for a short delay until the issues of the new age had a little defined themselves, and until the country had something more specific before it on which to declare its mind and to instruct its new representatives. But the claims of private ambition determined otherwise.

For a time all went well. But before the campaign was far advanced government candidates were finding themselves handicapped by the lack of an effective cry. The War Cabinet was demanding a further lease of authority on the ground of having won the war. But partly because the new issues had not yet defined themselves, partly out of regard for the delicate balance of a Coalition party, the Prime Minister's future policy was the subject of silence or generalities. The campaign seemed, therefore, to fall a little flat. In the light of subsequent events it seems improbable that the Coalition party was ever in real danger. But party managers are easily 'rattled'. The Prime Minister's more neurotic advisers told him that he was not safe from dangerous surprises, and the Prime Minister lent an ear to them. The party managers demanded more 'ginger'. The Prime Minister looked about for some.

On the assumption that the return of the Prime Minister to power was the primary consideration, the rest followed naturally. At that juncture there was a clamour from certain quarters that the government had given by no means sufficiently clear undertakings that they were not going 'to let the Hun off'. Mr Hughes was evoking a good deal of attention by his demands for a very large indemnity(24\*) and Lord Northcliffe was lending his powerful aid to the same cause. This pointed the Prime Minister to a stone for two birds. By himself adopting the policy of Mr Hughes and Lord Northcliffe, he could at the same time silence those powerful critics and provide his party managers with an effective platform cry to drown the increasing voices of criticism from other quarters.

The progress of the General Election of 1918 affords a sad, dramatic history of the essential weakness of one who draws his chief inspiration not from his own true impulses, but from the grosser effluxions of the atmosphere which momentarily surrounds him. The Prime Minister's natural instincts, as they so often are, were right and reasonable. He himself did not believe in hanging the Kaiser or in the wisdom or the possibility of a great indemnity. On the 22nd of November he and Mr Bonar Law issued their election manifesto. It contains no allusion of any kind either to the one or to the other, but, speaking, rather, of disarmament and the



League of Nations, concludes that 'our first task must be to conclude a just and lasting peace, and so to establish the foundations of a new Europe that occasion for further wars may be for ever averted'. In his speech at Wolverhampton on the eve of the dissolution (24 November), there is no word of reparation or indemnity. On the following day at Glasgow, Mr Bonar Law would promise nothing. 'We are going to the conference, he said, 'as one of a number of allies, and you cannot expect a member of the government, whatever he may think, to state in public before he goes into that conference, what line he is going to take in regard to any particular question.' But a few days later at Newcastle (29 November) the Prime Minister was warming to his work: 'When Germany defeated France she made France pay. That is the principle which she herself has established. There is absolutely no doubt about the principle, and that is the principle we should proceed upon -- that Germany must pay the costs of the war up to the limit of her capacity to do so.' But he accompanied this statement of principle with many ' words of warning, as to the practical difficulties of the case: 'We have appointed a strong committee of experts, representing every shade of opinion, to consider this question very carefully and to advise us. There is no doubt as to the justice of the demand. She ought to pay, she must pay as far as she can, but we are not going to allow her to pay in such a way as to wreck our industries.' At this stage the Prime Minister sought to indicate that he intended great severity, without raising excessive hopes of actually getting the money, or committing himself to a particular line of action at the conference. It was rumoured that a high City authority had committed himself to the opinion that Germany could certainly pay £20,000 million and that this authority for his part would not care to discredit a figure of twice that sum. The Treasury officials, as Mr Lloyd George indicated, took a different view. He could, therefore, shelter himself behind the wide discrepancy between the opinions of his different advisers, and regard the precise figure of Germany's capacity to pay as an open question in the treatment of which he must do his best for his country's interests. As to our engagements under the Fourteen Points he was always silent.

On 30 November, Mr Barnes, a member of the War Cabinet, in which he was supposed to represent Labour, shouted from a platform, 'I am for hanging the Kaiser.'

On 6 December, the Prime Minister issued a statement of policy and aims in which he stated, with significant emphasis on the word *European*, that 'All the European Allies have accepted the principle that the Central Powers must pay the cost of the war up to the limit of their capacity.'

But it was now little more than a week to polling day, and still he had not said enough to satisfy the appetites of the moment. On 8 December *The Times*, providing as usual a cloak of ostensible decorum for the lesser restraint of its associates, declared in a leader entitled 'Making Germany pay,' that 'the public mind was still bewildered by the Prime Minister's various statements.' 'There is too much suspicion', they added, 'of influences concerned to let the Germans off lightly 'whereas the only possible motive in determining their capacity to pay must be the interests of the Allies.' 'It is the candidate who deals with the issues of today,' wrote their political correspondent, 'who adopts Mr Barnes's phrase about "hanging the Kaiser" and plumps for the payment of the cost of the war by Germany, who rouses his audience and strikes the notes to which they are most responsive.'

On 9 December, at the Queen's Hall, the Prime Minister avoided the subject. But from now on, the debauchery of thought and speech progressed hour by hour. The grossest spectacle was provided by Sir Eric Geddes in the Guildhall at Cambridge. An earlier speech in which, in a moment of injudicious candour, he had cast doubts on the possibility of extracting from Germany the whole cost of the war had been

the object of serious suspicion, and he had therefore a reputation to regain. 'We will get out of her all you can squeeze out of a lemon and a bit more,' the penitent shouted, 'I will squeeze her until you can hear the pips, squeak'; his policy was to take every bit of property belonging to Germans in neutral and Allied countries, and all her gold and silver and her jewels, and the contents of her picture-galleries and libraries, to sell the proceeds for the Allies' benefit. 'I would strip Germany,' he cried, 'as she has stripped Belgium.'

By 11 December the Prime Minister had capitulated. His final manifesto of six points issued on that day to the electorate furnishes a melancholy comparison with his programme of three weeks earlier. I quote it in full:

1. Trial of the Kaiser.
2. Punishment of those responsible for atrocities.
3. Fullest indemnities from Germany.
4. Britain for the British, socially and industrially.
5. rehabilitation of those broken in the war.
6. A happier country for all.

Here is food for the cynic. To this concoction of greed and sentiment, prejudice and deception, three weeks of the platform had reduced the powerful governors of England, who but a little while before had spoken not ignobly of disarmament and a League of Nations and of a just and lasting peace which should establish the foundations of a new Europe.

On the same evening the Prime Minister at Bristol withdrew in effect his previous reservations and laid down four principles to govern his indemnity policy, of which the chief were: First, we have an absolute right to demand the whole cost of the war; second, we propose to demand the whole cost of the war; and third, a committee appointed by direction of the Cabinet believe that it can be done.(25\*) Four days later he went to the polls.

The Prime Minister never said that he himself believed that Germany could pay the whole cost of the war. But the programme became in the mouths of his supporters on the hustings a great deal more concrete. The ordinary voter was led to believe that Germany could certainly be made to pay the greater part, if not the whole cost of the war. Those whose practical and selfish fears for the future the expenses of the war had aroused, and those whose emotions its horrors had disordered, were both provided for. A vote for a Coalition candidate meant the crucifixion of Antichrist and the assumption by Germany of the British national debt.

It proved an irresistible combination, and once more Mr George's political instinct was not at fault. No candidate could safely denounce this programme, and none did so. The old Liberal party, having nothing comparable to offer to the electorate, was swept out of existence.(26\*) A new House of Commons came into being, a majority of whose members had pledged themselves to a great deal more than the Prime Minister's guarded promises. Shortly after their arrival at Westminster I asked a Conservative friend, who had known previous Houses, what he thought of them. 'They are a lot of hard-faced men', he said, 'who look as if they had done very well out of the war.'

This was the atmosphere in which the Prime Minister left for Paris, and these the entanglements he had made for himself. He had pledged himself and his government to make demands of a helpless enemy inconsistent with solemn engagements on our part, on the faith of which this enemy had laid down his arms. There are few episodes in history which posterity will have less reason to condone -

- a war ostensibly waged in defence of the sanctity of international engagements ending a definite breach of one of the most sacred possible of such engagements on the part of the victorious champions of these ideals.(27\*)

Apart from other aspects of the transaction, I believe that the campaign for securing out of Germany the general costs of the war was one of the most serious acts of political unwisdom for which our statesmen have ever been responsible. To what a different future Europe might have looked forward if either Mr Lloyd George or Mr Wilson had apprehended that the most serious of the problems which claimed their attention were not political or territorial but financial and economic, and that the perils of the future lay not in frontiers or sovereignties but in food, coal, and transport. Neither of them paid adequate attention to these problems at any stage of the conference. But in any event the atmosphere for the wise and reasonable consideration of them was hopelessly befogged by the commitments of the British delegation on the question of indemnities. The hopes to which the Prime Minister had given rise not only compelled him to advocate an unjust and unworkable economic basis to the treaty with Germany, but set him at variance with the President, and on the other hand with competing interests to those of France and Belgium. The clearer it became that but little could be expected from Germany, the more necessary it was to exercise patriotic greed and 'sacred egotism' and snatch the bone from the juster claims and greater need of France or the well-founded expectations of Belgium. Yet the financial problems which were about to exercise Europe could not be solved by greed. The possibility of *their* cure lay in magnanimity.

Europe, if she is to survive her troubles, will need so much magnanimity from America, that she must herself practise it. It is useless for the Allies, hot from stripping Germany and one another, to turn for help to the United States to put the states of Europe, including Germany, on to their feet again. If the General Election of December 1918 had been fought on lines of prudent generosity instead of imbecile greed, how much better the financial prospect of Europe might now be. I still believe that before the main conference, or very early in its proceedings, the representatives of Great Britain should have entered deeply, with those of the United States, into the economic and financial situation as a whole, and that the former should have been authorised to make concrete proposals on the general lines (1) that all inter-Allied indebtedness be cancelled outright; (2) that the sum to be paid by Germany be fixed at £2,000 million; (3) that Great Britain renounce all claim to participation in this sum, and that any share to which she proves entitled be placed at the disposal of the conference for the purpose of aiding the finances of the new states about to be established; (4) that in order to make some basis of credit immediately available an appropriate proportion of the German obligations representing the sum to be paid by her should be guaranteed by all parties to the treaty; and (5) that the ex-enemy Powers should also be allowed, with a view to their economic restoration, to issue a moderate amount of bonds carrying a similar guarantee. Such proposals involved an appeal to the generosity of the United States. But that was inevitable; and, in view of her far less financial sacrifices, it was an appeal which could fairly have been made to her. Such proposals would have been practicable. There is nothing in them quixotic or Utopian. And they would have opened up for Europe some prospect of financial stability and reconstruction.

The further elaboration of these ideas, however, must be left to chapter 7, and we must return to Paris. I have described the entanglements which Mr Lloyd George took with him. The position of the finance ministers of the other Allies was even worse. We in Great Britain had not based our financial arrangements on any expectation of an indemnity. Receipts from such a source would have been more or less in the nature of a windfall; and, in spite of subsequent developments, there was

an expectation at that time of balancing our budget by normal methods. But this was not the case with France or Italy. Their peace budgets made no pretence of balancing, and had no prospects of doing so, without some far-reaching revision of the existing policy. Indeed, the position was and remains nearly hopeless. These countries were heading for national bankruptcy. This fact could only be concealed by holding out the expectation of vast receipts from the enemy. As soon as it was admitted that it was in fact impossible to make Germany pay the expenses of both sides, and that the unloading of their liabilities upon the enemy was not practicable, the position of the Ministers of Finance of France and Italy became untenable.

Thus a scientific consideration of Germany's capacity to pay was from the outset out of court. The expectations which the exigencies of politics had made it necessary to raise were so very remote from the truth that a slight distortion of figures was no use, and it was necessary to ignore the facts entirely. The resulting unverity was fundamental. On a basis of so much falsehood it became impossible to erect any constructive financial policy which was workable. For this reason amongst others, a magnanimous financial policy was essential. The financial position of France and Italy was so bad that it was impossible to make them listen to reason on the subject of the German indemnity, unless one could at the same time point out to them some alternative mode of escape from their troubles.(28\*) The representatives of the United States were greatly at fault, in my judgment, for having no constructive proposals whatever to offer to a suffering and distracted Europe.

It is worth while to point out in passing a further element in the situation, namely, the opposition which existed between the 'crushing' policy of M. Clemenceau and the financial necessities of M. Klotz. Clemenceau's aim was to weaken and destroy Germany in every possible way, and I fancy that he was always a little contemptuous about the indemnity; he had no intention of leaving Germany in a position to practise a vast commercial activity. But he did not trouble his head to understand either the indemnity or poor M. Klotz's overwhelming financial difficulties. If it amused the financiers to put into the treaty some very large demands, well there was no harm in that; but the satisfaction of these demands must not be allowed to interfere with the essential requirements of a Carthaginian peace. The combination of the 'real' policy of M. Clemenceau on unreal issues, with M. Klotz's policy of pretence on what were very real issues indeed, introduced into the treaty a whole set of incompatible provisions, over and above the inherent impracticabilities of the reparation proposals.

I cannot here describe the endless controversy and intrigue between the Allies themselves, which at last after some months culminated in the presentation to Germany of the reparation chapter in its final form. There can have been few negotiations in history so contorted, so miserable, so utterly unsatisfactory to all parties. I doubt if anyone who took much part in that debate can look back on it without shame. I must be content with an analysis of the elements of the final compromise which is known to all the world.

The main point to be settled was, of course, that of the items for which Germany could fairly be asked to make payment. Mr Lloyd George's election pledge to the effect that the Allies were *entitled* to demand from Germany the entire costs of the war was from the outset clearly untenable; or rather, to put it more impartially, it was clear that to persuade the President of the conformity of this demand with our pre-armistice engagements was beyond the powers of the most plausible. The actual compromise finally reached is to be read as follows in the paragraphs of the treaty as it has been published to the world.

Article 231 reads: 'The Allied and Associated governments affirm and Germany accepts the responsibility of Germany and her allies for causing all the loss and damage to which the Allied and Associated governments and their nationals have been subjected as a consequence of the war imposed upon them by the aggression of Germany and her allies.' This is a well and carefully drafted article; for the President could read it as statement of admission on Germany's part of *moral* responsibility for bringing about the war, while the Prime Minister could explain it as an admission of *financial* liability for the general costs of the war. Article 232 continues: 'The Allied and Associated governments recognise that the resources of Germany are not adequate, after taking into account permanent diminutions of such resources which will result from other provisions of the present treaty, to make complete reparation for all such loss and damage.' The President could comfort himself that this was no more than a statement of undoubted fact, and that to recognise that Germany cannot pay a certain claim does not imply that she is liable to pay the claim; but the Prime Minister could point out that in the context it emphasises to the reader the assumption of Germany's theoretic liability asserted in the preceding article. Article 232 proceeds: 'The Allied and Associated governments, however, require, and Germany undertakes, that *she will make compensation for all damage done to the civilian population of the Allied and Associated Powers and to their property during the period of the belligerency of each as an Allied or Associated Power against Germany by such aggression by land, by sea, and from the air*, and in general all damage as defined in annex I hereto.'<sup>(29\*)</sup> The words italicised, being practically a quotation from the pre-armistice conditions, satisfied the scruples of the President, while the additions of the words 'and in general all damage as defined in annex I hereto' gave the Prime Minister a chance in annex I.

So far, however, all this is only a matter of words, of virtuosity in draftsmanship, which does no one any harm, and which probably seemed much more important at the time than it ever will again between now and judgment day. For substance we must turn to annex I.

A great part of annex I is in strict conformity with the pre-armistice conditions or, at any rate, does not strain them beyond what is fairly arguable. Paragraph 1 claims damage done for injury to the persons of civilians or, in the case of death, to their dependants, as a direct consequence of acts of war; paragraph 2, for acts of cruelty, violence, or maltreatment on the part of the enemy towards civilian victims; paragraph 3, for enemy acts injurious to health or capacity to work or to honour towards civilians in occupied or invaded territory; paragraph 8, for forced labour exacted by the enemy from civilians; paragraph 9, for damage done to property 'with the exception of naval and military works or materials' as a direct consequence of hostilities; and paragraph 10, for fines and levies imposed by the enemy upon the civilian population. All these demands are just and in conformity with the Allies' rights.

Paragraph 4, which claims for 'damage caused by any kind of maltreatment of prisoners of war', is more doubtful on the strict letter, but may be justifiable under the Hague convention and involves a very small sum.

In paragraphs 5, 6, and 7, however, an issue of immensely greater significance is involved. These paragraphs assert a claim for the amount of the separation and similar allowances granted during the war by the Allied governments to the families of mobilised persons, and for the amount of the pensions and compensations in respect of the injury or death of combatants payable by these governments now and hereafter. Financially this adds to the bill, as we shall see below, a very large amount, indeed about twice as much again as all the other claims added together.

The reader will readily apprehend what a plausible case can be made out for the inclusion of these items of damage, if only on sentimental grounds. It can be pointed out, first of all, that from the point of view of general fairness it is monstrous that a woman whose house is destroyed should be entitled to claim from the enemy whilst a woman whose husband is killed on the field of battle should not be so entitled; or that a farmer deprived of his farm should claim but that a woman deprived of the earning power of her husband should not claim. In fact the case for including pensions and separation allowances largely depends on exploiting the rather *arbitrary* character of the criterion laid down in the pre-armistice conditions. Of all the losses caused by war some bear more heavily on individuals and some are more evenly distributed over the community as a whole; but by means of compensations granted by the government many of the former are in fact converted into the latter. The most logical criterion for a limited claim, falling short of the entire costs of the war, would have been in respect of enemy acts contrary to international engagements or the recognised practices of warfare. But this also would have been very difficult to apply and unduly unfavourable to French interests as compared with Belgium (whose neutrality Germany had guaranteed) and Great Britain (the chief sufferer from illicit acts of submarines).

In any case the appeals to sentiment and fairness outlined above are hollow; for it makes no difference to the recipient of a separation allowance or a pension whether the state which pays them receives compensation on this or on another head, and a recovery by the state out of indemnity receipts is just as much in relief of the general taxpayer as a contribution towards the general costs of the war would have been. But the main consideration is that it was too late to consider whether the pre-armistice conditions were perfectly judicious and logical or to amend them; the only question at issue was whether these conditions were not in fact limited to such classes of direct damage to civilians and their property as are set forth in paragraphs 1, 2, 3, 8, 9, and 10 of annex I. If words have any meaning, or engagements any force, we had no more right to claim for those war expenses of the state which arose out of pensions and separation allowances, than for any other of the general costs of the war. And who is prepared to argue in detail that we were entitled to demand the latter?

What had really happened was a compromise between the Prime Minister's pledge to the British electorate to claim the entire costs of the war and the pledge to the contrary which the Allies had given to Germany at the armistice. The Prime Minister could claim that although he had not secured the entire costs of the war, he had nevertheless secured an important contribution towards them, that he had always qualified his promises by the limiting condition of Germany's capacity to pay, and that the bill as now presented more than exhausted this capacity as estimated by the more sober authorities. The President, on the other hand, had secured a formula which was not too obvious a breach of faith, and had avoided a quarrel with his associates on an issue where the appeals to sentiment and passion would all have been against him, in the event of its being made a matter of open popular controversy. In view of the Prime Minister's election pledges, the President could hardly hope to get him to abandon them in their entirety without a struggle in public; and the cry of pensions would have had an overwhelming popular appeal in all countries. Once more the Prime Minister had shown himself a political tactician of a high order.

A further point of great difficulty may be readily perceived between the lines of the treaty. It fixes no definite sum as representing Germany's liability. This feature has been the subject of very general criticism -- that it is equally inconvenient to Germany and to the Allies themselves that she should not know what she has to pay

or they what they are to receive. The method, apparently contemplated by the treaty, of arriving at the final result over a period of many months by an addition of hundreds of thousands of individual claims for damage to land, farm buildings, and chickens, is evidently impracticable; and the reasonable course would have been for both parties to compound for a round sum without examination of details. If this round sum had been named in the treaty, the settlement would have been placed on a more business-like basis.

But this was impossible for two reasons. Two different kinds of false statement had been widely promulgated, one as to Germany's capacity to pay, the other as to the amount of the Allies' just claims in respect of the devastated areas. The fixing of either of these figures presented a dilemma. A figure for Germany's prospective capacity to pay, not too much in excess of the estimates of most candid and well-informed authorities, would have fallen hopelessly far short of popular expectations both in England and in France. On the other hand, a definitive figure for damage done which would not disastrously disappoint the expectations which had been raised in France and Belgium might have been incapable of substantiation under challenge,(30\*) and open to damaging criticism on the part of the Germans, who were believed to have been prudent enough to accumulate considerable evidence as to the extent of their own misdoings.

By far the safest course for the politicians was, therefore, to mention no figure at all; and from this necessity a great deal of the complication of the reparation chapter essentially springs.

The reader may be interested, however, to have my estimate of the claim which can in fact be substantiated under annex I of the reparation chapter. In the first section of this chapter I have already guessed the claims other than those for pensions and separation allowances at £3,000 million (to take the extreme upper limit of my estimate). The claim for pensions and separation allowances under annex I is not to be based on the actual cost of these compensations to the governments concerned, but is to be a computed figure calculated on the basis of the scales in force in France at the date of the treaty's coming into operation. This method avoids the invidious course of valuing an American or a British life at a higher figure than a French or an Italian. The French rate for pensions and allowances is at an intermediate rate, not so high as the American or British, but above the Italian, the Belgian, or the Serbian. The only data required for the calculation are the actual French rates, and the numbers of men mobilised and of the casualties in each class of the various Allied armies. None of these figures are available in detail, but enough is known of the general level of allowances, of the numbers involved, and of the casualties suffered to allow of an estimate which may not be *very wide* of the mark. My guess as to the amount to be added in respect of pensions and allowances is as follows:

	Million £
British Empire	1,400
France	2,400 (31*)
Italy	500
Others	
(including United States)	700
Total	5,000

I feel much more confidence in the approximate accuracy of the total figure(32\*) than in its division between the different claimants. The reader will observe that in any case the addition of pensions and allowances enormously increases the

aggregate claim, raising it indeed by nearly double. Adding this figure to the estimate under other heads, we have a total claim against Germany of £8,000 million.(33\*) I believe that this figure is fully high enough, and that the actual result may fall somewhat short of it.(34\*) In the next section of this chapter the relation of this figure to Germany's capacity to pay will be examined. It is only necessary here to remind the reader of certain other particulars of the treaty which speak for themselves:

(1) Out of the total amount of the claim, whatever it eventually turns out to be, a sum of £1,000 million must be paid before 1 May 1921. The possibility of this will be discussed below. But the treaty itself provides certain abatements. In the first place, this sum is to include the expenses of the armies of occupation since the armistice (a large charge of the order of magnitude of £200 million which under another article of the treaty -- no. 249 -- is laid upon Germany).(35\*) But further, 'such supplies of food and raw materials as may be judged by the governments of the Principal Allied and Associated Powers to be essential to enable Germany to meet her obligations for reparation may also, with the approval of the said governments, be paid for out of the above sum.'(36\*) This is a qualification of high importance. The clause, as it is drafted, allows the finance ministers of the Allied countries to hold out to their electorates the hope of substantial payments at an early date, while at the same time it gives to the reparation commission a discretion, which the force of facts will compel them to exercise, to give back to Germany what is required for the maintenance of her economic existence. This discretionary power renders the demand for an immediate payment of £1,000 million less injurious than it would otherwise be, but nevertheless it does not render it innocuous. In the first place, my conclusions in the next section of this chapter indicate that this sum cannot be found within the period indicated, even if a large proportion is in practice returned to Germany for the purpose of enabling her to pay for imports. In the second place, the reparation commission can only exercise its discretionary power effectively by taking charge of the entire foreign trade of Germany, together with the foreign exchange arising out of it, which will be quite beyond the capacity of any such body. If the reparation commission makes any serious attempt to administer the collection of this sum of £1,000 million, and to authorise the return to Germany of a part of it, the trade of Central Europe will be strangled by bureaucratic regulation in its most inefficient form.

(2) In addition to the early payment in cash or kind of a sum of £1,000 million, Germany is required to deliver bearer bonds to a further amount of £2,000 million or, in the event of the payments in cash or kind before 1 May 1921, available for reparation, falling short of £1,000 million by reason of the permitted deductions, to such further amount as shall bring the total payments by Germany in cash, kind, and bearer bonds up to 1 May 1921, to a figure of £3,000 million altogether.(37\*) These bearer bonds carry interest at 2 1/2% per annum from 1921 to 1925, and at 5% plus 1% for amortisation thereafter. Assuming, therefore, that Germany is not able to provide any appreciable surplus towards reparation before 1921, she will have to find a sum of £75 million annually from 1921 to 1925, and £180 million annually thereafter.(38\*)

(3) As soon as the reparation commission is satisfied that Germany can do better than this, 5% bearer bonds are to be issued for a further £2,000 million, the rate of amortisation being determined by the commission hereafter. This would bring the annual payment to £280 million without allowing anything for the discharge of the capital of the last £2,000 million.

(4) Germany's liability, however, is not limited to £5,000 million, and the reparation commission is to demand further instalments of bearer bonds until the



total enemy liability under annex I has been provided for. On the basis of my estimate of £8,000 million for the total liability, which is more likely to be criticised as being too low than as being too high, the amount of this balance will be £3,000 million. Assuming interest at 5%, this will raise the annual payment to £430 million. without allowance for amortisation.

(5) But even this is not all. There is a further provision of devastating significance. Bonds representing payments in excess of £3,000 million are not to be issued until the commission is satisfied that Germany can meet the interest on them. But this does not mean that interest is remitted in the meantime. As from 1 May 1921, interest is to be debited to Germany on such part of her outstanding debt as has not been covered by payment in cash or kind or by the issue of bonds as above.(39\*) and 'the rate of interest shall be 5 per cent unless the commission shall determine at some future time that circumstances justify a variation of this rate.' That is to say, the capital sum of indebtedness is rolling up all the time at compound interest. The effect of this provision towards increasing the burden is, on the assumption that Germany cannot pay very large sums at first, enormous. At 5% compound interest a capital sum doubles itself in fifteen years. On the assumption that Germany cannot pay more than £150 million annually until 1936 (i.e. 5% interest on £3,000 million) the £5,000 million on which interest is deferred will have risen to £10,000 million, carrying an annual interest charge of £500 million. That is to say, even if Germany pays £150 million annually up to 1936, she will nevertheless owe us at that date more than half as much again as she does now (£13,000 million as compared with £8,000 million). From 1936 onwards she will have to pay to us £650 million annually in order to keep pace with the interest alone. At the end of any year in which she pays less than this sum she will owe more than she did at the beginning of it. And if she is to discharge the capital sum in thirty years from 1936, i.e. in forty-eight years from the armistice, she must pay an additional £130 million annually, making £780 million in all.(40\*)

It is, in my judgment, as certain as anything can be, for reasons which I will elaborate in a moment, that Germany cannot pay anything approaching this sum. Until the treaty is altered, therefore, Germany has in effect engaged herself to hand over to the Allies the whole of her surplus production in perpetuity.

(6) This is not less the case because the reparation commission has been given discretionary powers to vary the rate of interest, and to postpone and even to cancel the capital indebtedness. In the first place, some of these powers can only be exercised if the commission or the governments represented on it are unanimous.(41\*) But also, which is perhaps more important, it will be the duty of the reparation commission, until there has been a unanimous and far-reaching change of the policy which the treaty represents, to extract from Germany year after year the maximum sum obtainable. There is a great difference between fixing a definite sum, which though large is within Germany's capacity to pay and yet to retain a little for herself, and fixing a sum far beyond her capacity, which is then to be reduced at the discretion of a foreign commission acting with the object of obtaining each year the maximum which the circumstances of that year permit. The first still leaves her with some slight incentive for enterprise, energy, and hope. The latter skins her alive year by year in perpetuity, and however skilfully and discreetly the operation is performed, with whatever regard for not killing the patient in the process, it would represent a policy which, if it were really entertained and deliberately practised, the judgment of men would soon pronounce to be one of the most outrageous acts of a cruel victor in civilised history.

There are other functions and powers of high significance which the treaty accords to the reparation commission. But these will be most conveniently dealt with in a

separate section.

### III. Germany's Capacity to Pay

The forms in which Germany can discharge the sum which she has engaged herself to pay are three in number --

(1) immediately transferable wealth in the form of gold, ships, and foreign securities; (2) the value of property in ceded territory, or surrendered under the armistice; (3) annual payments spread over a term of years, partly in cash and partly in materials such as coal products, potash, and dyes.

There is excluded from the above the actual restitution of property removed from territory occupied by the enemy, as, for example, Russian gold, Belgian and French securities, cattle, machinery, and works of art. In so far as the actual goods taken can be identified and restored, they must clearly be returned to their rightful owners, and cannot be brought into the general reparation pool. This is expressly provided for in article 238 of the treaty.

#### *1. Immediately transferable wealth*

(a) *Gold.* After deduction of the gold to be returned to Russia, the official holding of gold as shown in the Reichsbank's return of 30 November 1918 amounted to £115,417,900. This was a very much larger amount than had appeared in the Reichsbank's return prior to the war.(42\*) and was the result of the vigorous campaign carried on in Germany during the war for the surrender to the Reichsbank not only of gold coin but of gold ornaments of every kind. Private hoards doubtless still exist but, in view of the great efforts already made, it is unlikely that either the German government or the Allies will be able to unearth them. The return can therefore be taken as probably representing the maximum amount which the German government are able to extract from their people. In addition to gold there was in the Reichsbank a sum of about £1 million in silver. There must be, however, a further substantial amount in circulation, for the holdings of the Reichsbank were as high as £9.1 million on 31 December 1917, and stood at about £6 million up to the latter part of October 1918, when the internal run began on currency of every kind.(43\*) We may, therefore, take a total of (say) £125 million for gold and silver together at the date of the armistice.

These reserves, however, are no longer intact. During the long period which elapsed between the armistice and the peace it became necessary for the Allies to facilitate the provisioning of Germany from abroad. The political condition of Germany at that time and the serious menace of Spartacism rendered this step necessary in the interests of the Allies themselves if they desired the continuance in Germany of a stable government to treat with. The question of how such provisions were to be paid for presented, however, the gravest difficulties. A series of conferences was held at Trèves, at Spa, at Brussels, and subsequently at Château Vilette and Versailles, between representatives of the Allies and of Germany, with the object of finding some method of payment as little injurious as possible to the future prospects of reparation payments. The German representatives maintained from the outset that the financial exhaustion of their country was for the time being so complete that a temporary loan from the Allies was the only possible expedient. This the Allies could hardly admit at a time when they were preparing demands for the immediate payment by Germany of immeasurably larger sums. But, apart from this, the German claim could not be accepted as strictly accurate so long as their gold was still untapped and their remaining foreign securities unmarketed. In any case, it was out of the question to suppose that in the spring of 1919 public opinion

in the Allied countries or in America would have allowed the grant of a substantial loan to Germany. On the other hand, the Allies were naturally reluctant to exhaust on the provisioning of Germany the gold which seemed to afford one of the few obvious and certain sources for reparation. Much time was expended in the exploration of all possible alternatives. but it was evident at last that, even if German exports and saleable foreign securities had been available to a sufficient value, they could not be liquidated in time, and that the financial exhaustion of Germany was so complete that nothing whatever was immediately available in substantial amounts except the gold in the Reichsbank. Accordingly a sum exceeding £50 million in all out of the Reichsbank gold was transferred by Germany to the Allies (chiefly to the United States, Great Britain, however, also receiving a substantial sum) during the first six months of 1919 in payment for foodstuffs.

But this was not all. Although Germany agreed, under the first extension of the armistice, not to export gold without Allied permission, this permission could not be always withheld. There were liabilities of the Reichsbank accruing in the neighbouring neutral countries, which could not be met otherwise than in gold. The failure of the Reichsbank to meet its liabilities would have caused a depreciation of the exchange so injurious to Germany's credit as to react on the future prospects of reparation. In some cases, therefore, permission to export gold was accorded to the Reichsbank by the Supreme Economic Council of the Allies.

The net result of these various measures was to reduce the gold reserve of the Reichsbank by more than half, the figures falling from £115 million to £55 million in September 1919.

It would be possible under the treaty to take the whole of this latter sum for reparation purposes. It amounts, however, as it is, to less than 4 % of the Reichsbank's note issue, and the psychological effect of its total confiscation might be expected (having regard to the very large volume of mark-notes held abroad) to destroy the exchange value of the mark almost entirely. A sum of £5 million, £10 million, or even £20 million might be taken for a special purpose. But we may assume that the reparation commission will judge it imprudent, having regard to the reaction on their future prospects of securing payment, to ruin the German currency system altogether, more particularly because the French and Belgian governments, being holders of a very large volume of mark-notes formerly circulating in the occupied or ceded territory have a great interest in maintaining some exchange value for the mark, quite apart from reparation prospects.

It follows, therefore, that no sum worth speaking of can be expected in the form of gold or silver towards the initial payment of £1,000 million due by 1921.

(b) *Shipping*. Germany has engaged, as we have seen above, to surrender to the Allies virtually the whole of her merchant shipping. A considerable part of it, indeed, was already in the hands of the Allies prior to the conclusion of peace, either by detention in their ports or by the provisional transfer of tonnage under the Brussels agreement in connection with the supply of foodstuffs.(44\*) Estimating the tonnage of German shipping to be taken over under the treaty at 4 million gross tons, and the average value per ton at £30 per ton, the total money value involved is £120 million.(45\*)

(c) *Foreign securities*. Prior to the census of foreign securities carried out by the German government in September 1916,(46\*) of which the exact results have not been made public, no official return of such investments was ever called for in Germany, and the various unofficial estimates are confessedly based on insufficient

data, such as the admission of foreign securities to the German stock exchanges, the receipts of the stamp duties, consular reports, etc. The principal German estimates current before the war are given in the appended footnote.(47\*) This shows a general consensus of opinion among German authorities that their net foreign investments were upwards of £1,250 million. I take this figure as the basis of my calculations, although I believe it to be an exaggeration; £1,000 million would probably be a safer figure.

Deductions from this aggregate total have to be made under four heads.

(i) Investments in Allied countries and in the United States, which between them constitute a considerable part of the world, have been sequestered by Public Trustees, custodians of enemy property, and similar officials, and are not available for reparation except in so far as they show a surplus over various private claims. Under the scheme for dealing with enemy debts outlined in chapter 4, the first charge on these assets is the private claims of Allied against German nationals. It is unlikely, except in the United States, that there will be any appreciable surplus for any other purpose.

(ii) Germany's most important fields of foreign investment before the war were not, like ours, overseas, but in Russia, Austria-Hungary, Turkey, Roumania, and Bulgaria. A great part of these has now become almost valueless, at any rate for the time being; especially those in Russia and Austria-Hungary. If present market value is to be taken as the test, none of these investments are now saleable above a nominal figure. Unless the Allies are prepared to take over these securities much above their nominal market valuation, and hold them for future realisation, there is no substantial source of funds for immediate payment in the form of investments in these countries.

(iii) While Germany was not in a position to realise her foreign investments during the war to the degree that we were, she did so nevertheless in the case of certain countries and to the extent that she was able. Before the United States came into the war, she is believed to have resold a large part of the pick of her investments in American securities, although some current estimates of these sales (a figure of £60 million has been mentioned) are probably exaggerated. But throughout the war and particularly in its later stages, when her exchanges were weak and her credit in the neighbouring neutral countries was becoming very low, she was disposing of such securities as Holland, Switzerland, and Scandinavia would buy or would accept as collateral. It is reasonably certain that by June 1919 her investments in these countries had been reduced to a negligible figure and were far exceeded by her liabilities in them. Germany has also sold certain overseas securities, such as Argentine cedulas, for which a market could be found.

(iv) It is certain that since the armistice there has been a great flight abroad of the foreign securities still remaining in private hands. This is exceedingly difficult to prevent. German foreign investments are as a rule in the form of bearer securities and are not registered. They are easily smuggled abroad across Germany's extensive land frontiers, and for some months before the conclusion of peace it was certain that their owners would not be allowed to retain them if the Allied governments could discover any method of getting hold of them. These factors combined to stimulate human ingenuity, and the efforts both of the Allied and of the German governments to interfere effectively with the outflow are believed to have been largely futile.

In face of all these considerations, it will be a miracle if much remains for reparation. The countries of the Allies and of the United States, the countries of

Germany's own allies, and the neutral countries adjacent to Germany exhaust between them almost the whole of the civilised world; and, as we have seen, we cannot expect much to be available for reparation from investments in any of these quarters. Indeed there remain no countries of importance for investments except those of South America.

To convert the significance of these deductions into figures involves much guesswork. I give the reader the best personal estimate I can form after pondering the matter in the light of the available figures and other relevant data.

I put the deduction under (i) at £300 million, of which £100 million may be ultimately available after meeting private debts, etc.

As regards (ii) -- according to a census taken by the Austrian Ministry of Finance on 31 December 1912, the nominal value of the Austro-Hungarian securities held by Germans was £197,300,000. Germany's pre-war investments in Russia outside government securities have been estimated at £95 million, which is much lower than would be expected, and in 1906 Sartorius von Waltershausen estimated her investments in Russian government securities at £150 million. This gives a total of £245 million, which is to some extent borne out by the figure of £200 million given in 1911 by Dr Ischchanian as a deliberately modest estimate. A Roumanian estimate, published at the time of that country's entry into the war, gave the value of Germany's investments in Roumania at £4,000,000-£4,400,000, of which £2,800,000-£3,200,000 were in government securities. An association for the defence of French interests in Turkey, as reported in the Temps (8 September 1919), has estimated the total amount of German capital invested in Turkey at about £59 million, of which, according to the latest Report of the council of foreign bondholders, £32,500,000 was held by German nationals in the Turkish external debt. No estimates are available to me of Germany's investments in Bulgaria. Altogether I venture a deduction of £500 million in respect of this group of countries as a whole.

Resales and the pledging as collateral of securities during the war under (iii) I put at £100 million to £150 million, comprising practically all Germany's holding of Scandinavian, Dutch, and Swiss securities, a part of her South American securities, and a substantial proportion of her North American securities sold prior to the entry of the United States into the war.

As to the proper deduction under (iv) there are naturally no available figures. For months past the European Press has been full of sensational stories of the expedients adopted. But if we put the value of securities which have already left Germany or have been safely secreted within Germany itself beyond discovery by the most inquisitorial and powerful methods at £3100 million, we are not likely to overstate it.

These various items lead, therefore, in all to a deduction of a round figure of about £1,000 million, and leave us with an amount of £250 million theoretically still available.(48\*)

To some readers this figure may seem low, but let them remember that it purports to represent the remnant of *saleable* securities upon which the German government might be able to lay hands for public purposes. In my own opinion it is much too high, and considering the problem by a different method of attack I arrive at a lower figure. For leaving out of account sequestered Allied securities and investments in Austria, Russia, etc., what blocks of securities, specified by countries and enterprises, can Germany possibly still have which could amount to as much as

£250 million? I cannot answer the question. She has some Chinese government securities which have not been sequestered, a few Japanese perhaps, and a more substantial value of first-class South American properties. But there are very few enterprises of this class still in German hands, and even their value is measured by one or two tens of millions, not by fifties or hundreds. He would be a rash man, in my judgment, who joined a syndicate to pay £100 million in cash for the unsequestered remnant of Germany's overseas investments. If the reparation commission is to realise even this lower figure, it is probable that they will have to nurse, for some years, the assets which they take over, not attempting their disposal at the present time.

We have, therefore, a figure of from £100 million to £250 million as the maximum contribution from Germany's foreign securities.

Her immediately transferable wealth is composed, then, of: (a) gold and silver -- say £60 million; (b) ships -- £120 million; (c) foreign securities -- £100-250 million.

Of the gold and silver, it is not, in fact, practicable to take any substantial part without consequences to the German currency system injurious to the interests of the Allies themselves. The contribution from all these sources together which the reparation commission can hope to secure by May 1921 may be put, therefore, at from £250 million to £350 million as a maximum.(49\*)

## ***2. Property in ceded territory or surrendered under the armistice***

As the treaty has been drafted Germany will not receive important credits available towards meeting reparation in respect of her property in ceded territory.

*Private* property in most of the ceded territory is utilised towards discharging private German debts to Allied nationals, and only the surplus, if any, is available towards reparation. The value of such property in Poland and the other new states is payable direct to the owners.

*Government* property in Alsace-Lorraine, in territory ceded to Belgium, and in Germany's former colonies transferred to a mandatory, is to be forfeited without credit given. Buildings, forests, and other state property which belonged to the former kingdom of Poland are also to be surrendered without credit. There remain, therefore, government properties, other than the above, surrendered to Poland, government properties in Schleswig surrendered to Denmark,(50\*) the value of the Saar coalfields, the value of certain river craft, etc., to be surrendered under the ports, waterways, and railways chapter, and the value of the German submarine cables transferred under annex VII of the reparation chapter.

Whatever the treaty may say, the reparation commission will not secure any cash payments from Poland. I believe that the Saar coalfields have been valued at from £15 million to £20 million. A round figure of £30 million for all the above items, excluding any surplus available in respect of private property, is probably a liberal estimate.

There remains the value of material surrendered under the armistice. Article 250 provides that a credit shall be assessed by the reparation commission for rolling-stock surrendered under the armistice as well as for certain other specified items, and generally for any material so surrendered for which the reparation commission think that credit should be given, 'as having non-military value'. The rolling-stock (150,000 wagons and 5,000 locomotives) is the only very valuable item. A round

figure of £50 million, for all the armistice surrenders, is probably again a liberal estimate.

We have, therefore, £80 million to add in respect of this heading to our figure of £250-350 million under the previous heading. This figure differs from the preceding in that it does not represent cash capable of benefiting the financial situation of the Allies, but is only a book credit between themselves or between them and Germany.

The total of £330 million to £430 million now reached is not, however, available for reparation. The first charge upon it, under article 251 of the treaty, is the cost of the armies of occupation both during the armistice and after the conclusion of peace. The aggregate of this figure up to May 1921 cannot be calculated until the rate of withdrawal is known which is to reduce the monthly cost from the figure exceeding £20 million which prevailed during the first part of 1919, to that of £1 million, which is to be the normal figure eventually. I estimate, however, that this aggregate may be about £200 million. This leaves us with from £100 million to £200 million still in hand.

Out of this, and out of exports of goods, and payments in kind under the treaty prior to May 1921 (for which I have not as yet made any allowance), the Allies have held out the hope that they will allow Germany to receive back such sums for the purchase of necessary food and raw materials as the former deem it essential for her to have. It is not possible at the present time to form an accurate judgment either as to the money-value of the goods which Germany will require to purchase from abroad in order to re-establish her economic life, or as to the degree of liberality with which the Allies will exercise their discretion. If her stocks of raw materials and food were to be restored to anything approaching their normal level by May 1921, Germany would probably require foreign purchasing power of from £100 to 3200 million at least, in addition to the value of her current exports. While this is not likely to be permitted, I venture to assert as a matter beyond reasonable dispute that the social and economic condition of Germany cannot possibly permit a surplus of exports over imports during the period prior to May 1921, and that the value of any payments in kind with which she may be able to furnish the Allies under the treaty in the form of coal, dyes, timber, or other materials will have to be returned to her to enable her to pay for imports essential to her existence.(51\*)

The reparation commission can, therefore, expect no addition from other sources to the sum of from £100 million to £200 million with which we have hypothetically credited it after the realisation of Germany's immediately transferable wealth, the calculation of the credits due to Germany under the treaty, and the discharge of the cost of the armies of occupation. As Belgium has secured a private agreement with France, the United States, and Great Britain, outside the treaty, by which she is to receive, towards satisfaction of her claims, the *first* £100 million available for reparation, the upshot of the whole matter is that Belgium may *possibly* get her £100 million by May 1921, but none of the other Allies are likely to secure by that date any contribution worth speaking of. At any rate, it would be very imprudent for finance ministers to lay their plans on any other hypothesis.

### ***3. Annual payments spread over a term of years***

It is evident that Germany's pre-war capacity to pay an annual foreign tribute has not been unaffected by the almost total loss of her colonies, her overseas connections, her mercantile marine, and her foreign properties, by the cession of ten per cent of her territory and population, of one-third of her coal and of three-quarters of her iron ore, by two million casualties amongst men in the prime of life,

by the starvation of her people for four years, by the burden of a vast war debt, by the depreciation of her currency to less than one-seventh its former value, by the disruption of her allies and their territories, by revolution at home and Bolshevism on her borders, and by all the unmeasured ruin in strength and hope of four years of all-swallowing war and final defeat.

All this, one would have supposed, is evident. Yet most estimates of a great indemnity from Germany depend on the assumption that she is in a position to conduct in the future a vastly greater trade than ever she has had in the past.

For the purpose of arriving at a figure it is of no great consequence whether payment takes the form of cash (or rather of foreign exchange) or is partly effected in kind (coal, dyes, timber, etc.), as contemplated by the treaty. In any event, it is only by the export of specific commodities that Germany can pay, and the method of turning the value of these exports to account for reparation purposes is, comparatively, a matter of detail.

We shall lose ourselves in mere hypothesis unless we return in some degree to first principles and, whenever we can, to such statistics as there are. It is certain that an annual payment can only be made by Germany over a series of years by diminishing her imports and increasing her exports, thus enlarging the balance in her favour which is available for effecting payments abroad. Germany can pay in the long run in goods, and in goods only, whether these goods are furnished direct to the Allies, or whether they are sold to neutrals and the neutral credits so arising are then made over to the Allies. The most solid basis for estimating the extent to which this 'process can be carried is to be found, therefore, in an analysis of her trade returns before the war. Only on the basis of such an analysis, supplemented by some general data as to the aggregate wealth-producing capacity of the country, can a rational guess be made as to the maximum degree to which the exports of Germany could be brought to exceed her imports.

In the year 1913 Germany's imports amounted to £538 million and her exports to £505 million, exclusive of transit trade and bullion. That is to say, imports exceeded exports by about £33 million. On the average of the five years ending 1913, however, her imports exceeded her exports by a substantially larger amount, namely, £74 million. It follows, therefore, that more than the whole of Germany's pre-war balance for new foreign investment was derived from the interest on her existing foreign securities, and from the profits of her shipping, foreign banking, etc. As her foreign properties and her mercantile marine are now to be taken from her, and as her foreign banking and other miscellaneous sources of revenue from abroad have been largely destroyed, it appears that, on the pre-war basis of exports and imports, Germany, so far from having a surplus wherewith to make a foreign payment, would be not nearly self-supporting. Her first task, therefore, must be to effect a readjustment of consumption and production to cover this deficit. Any further economy she can effect in the use of imported commodities, and any further stimulation of exports will then be available for reparation.

Two-thirds of Germany's import and export trade is enumerated under separate headings in the following tables. The considerations applying to the enumerated portions may be assumed to apply more or less to the remaining one-third, which is composed of commodities of minor importance individually.



<b>German exports, 1913</b>	<b>Amount (million £)</b>	<b>Percentage of total exports</b>
Iron goods (including tin-plates, etc.)	66.13	13.2
Machinery and parts (including motor-cars)	37.55	7.5
Coal, coke, and briquettes	35.34	7.0
Woollen goods (including raw and combined wool and clothing)	29.40	5.9
Cotton goods (including raw cotton, yarn and thread)	28.15	5.6
	<u>196.57</u>	<u>39.2</u>
Cereals, etc. (including rye, oats, wheat, hops)	21.18	4.1
Leather and leather goods	15.47	3.0
Sugar	13.20	2.6
Paper, etc.	13.10	2.6
Furs	11.75	2.2
Electrical goods (installations, machinery, lamps, cables)	10.88	2.2
Silk goods	10.10	2.0
Dyes	9.76	1.9
Copper goods	6.50	1.3
Toys	5.15	1.0
Rubber and rubber goods	4.27	0.9
Books, maps, and music	3.71	0.8
Potash	3.18	0.6
Glass	3.14	0.6
Potassium chloride	2.91	0.6
Pianos, organs, and parts	2.77	0.6
Raw zinc	2.74	0.5
Porcelain	2.53	0.5
	<u>142.34</u>	<u>28.0</u>
Other goods, unenumerated	165.92	32.8
<b>Total</b>	<u>504.83</u>	<u>100.0</u>
.....		
<b>German imports, 1913</b>	<b>Amount (million £3)</b>	<b>Percentage of total imports</b>
1. Raw materials:		
Cotton	30.35	5.6
Hides and skins	24.86	4.6
Wool	23.67	4.4
Copper	16.75	3.1
Coal	13.66	2.5
Timber	11.60	2.2
Iron ore	11.35	2.1
Furs	9.35	1.7
Flax and flaxseed	9.33	1.7
Saltpetre	8.55	1.6
Silk	7.90	1.5
Rubber	7.30	1.4
Jute	4.70	0.9
Petroleum	3.49	0.7
Tin	2.91	0.5
Phosphorus chalk	2.32	0.4
Lubricating oil	2.29	0.4
	<u>190.38</u>	<u>35.3</u>

II. Food, tobacco, etc.:		
Cereals, etc. (wheat, barley, bran, rice, maize, oats, rye, clover)	65.51	12.2
Oilseeds and cake, etc. (including palm kernels, copra, cocoa beans)	20.53	3.8
Cattle, lamb fat, bladders	14.62	2.8
Coffee	10.95	2.0
Eggs	9.70	1.8
Tobacco	6.70	1.2
Butter	5.93	1.1
Horses	5.81	1.1
Fruit	3.65	0.7
Fish	2.99	0.6
Poultry	2.80	0.5
Wine	2.67	0.5
	151.86	28.3
III. Manufactures:		
Cotton yarn and thread and cotton goods	9.41	1.8
Woollen yarn and woollen goods	7.57	1.4
Machinery	4.02	0.7
	21.00	3.9
IV. Unenumerated	175.28	32.5
Total	538.52	100.0

These tables show that the most important exports consisted of: (1) iron goods, including tin-plates (13.2%); (2) machinery, etc. (7.5%); (3) coal, coke, and briquettes (7%); (4) woollen goods, including raw and combed wool (5.9 %); and (5) cotton goods, including cotton yarn and thread and raw cotton (5.6%), these five classes between them accounting for 39.2% of the total exports. It will be observed that all these goods are of a kind in which before the war competition between Germany and the United Kingdom was very severe. If, therefore, the volume of such exports to overseas or European destinations is very largely increased the effect upon British export trade must be correspondingly serious. As regards two of the categories, namely, cotton and woollen goods, the increase of an export trade is dependent upon an increase of the import of the raw material, since Germany produces no cotton and practically no wool. These trades are therefore incapable of expansion unless Germany is given facilities for securing these raw materials (which can only be at the expense of the Allies) in excess of the pre-war standard of consumption, and even then the effective increase is not the gross value of the exports, but only the difference between the value of the manufactured exports and of the imported raw material. As regards the other three categories, namely, machinery, iron goods, and coal, Germany's capacity to increase her exports will have been taken from her by the cessions of territory in Poland, Upper Silesia, and Alsace-Lorraine. As has been pointed out already, these districts accounted for nearly one-third of Germany's production of coal. But they also supplied no less than three-quarters of her iron-ore production, 38% of her blast furnaces, and 9.5% of her iron and steel foundries. Unless, therefore, Alsace-Lorraine and Upper Silesia send their iron ore to Germany proper, to be worked up, which will involve an increase in the imports for which she will have to find payment, so far from any increase in export trade being possible, a decrease is inevitable.(52\*)

Next on the list come cereals, leather goods, sugar, paper, furs, electrical goods, silk goods, and dyes. Cereals are not a net export and are far more than balanced by imports of the same commodities. As regards sugar, nearly 90 per cent of Germany's pre-war exports came to the United Kingdom.(53\*) An increase in this

trade might be stimulated by the grant of a preference in this country to German sugar or by an arrangement by which sugar was taken in part payment for the indemnity on the same lines as has been proposed for coal, dyes, etc. Paper exports also might be capable of some increase. Leather goods, furs, and silks depend upon corresponding imports on the other side of the account. Silk goods are largely in competition with the trade of France and Italy. The remaining items are individually very small. I have heard it suggested that the indemnity might be paid to a great extent in potash and the like. But potash before the war represented 0.6% of Germany's export trade, and about £33 million in aggregate value. Besides, France, having secured a potash field in the territory which has been restored to her, will not welcome a great stimulation of the German exports of this material.

An examination of the import list shows that 63.6% are raw materials and food. The chief items of the former class, namely, cotton, wool, copper, hides, iron ore, furs, silk, rubber, and tin, could not be much reduced without reacting on the export trade, and might have to be increased if the export trade was to be increased. Imports of food, namely, wheat, barley, coffee, eggs, rice, maize, and the like, present a different problem. It is unlikely that, apart from certain comforts, the consumption of food by the German labouring classes before the war was in excess of what was required for maximum efficiency; indeed, it probably fell short of that amount. Any substantial decrease in the imports of food would therefore react on the efficiency of the industrial population, and consequently on the volume of surplus exports which they could be forced to produce. It is hardly possible to insist on a greatly increased productivity of German industry if the workmen are to be underfed. But this may not be equally true of barley, coffee, eggs, and tobacco. If it were possible to enforce a regime in which for the future no German drank beer or coffee, or smoked any tobacco, a substantial saving could be effected. Otherwise there seems little room for any significant reduction.

The following analysis of German exports and imports according to destination and origin is also relevant. From this it appears that of Germany's exports in 1913, 18% went to the British empire, 17% to France, Italy, and Belgium, 10% to Russia and Roumania, and 7% to the United States; that is to say, more than half of the exports found their market in the countries of the Entente nations. Of the balance, 12% went to Austria-Hungary, Turkey, and Bulgaria, and 35% elsewhere. Unless, therefore, the present Allies are prepared to encourage the importation of German products, a substantial increase in total volume can only be effected by the wholesale swamping of neutral markets.

**GERMAN TRADE (1913)  
ACCORDING TO DESTINATION AND ORIGIN**

	Destination of Germany's exports		Origin of Germany's imports	
	Million £3	Per cent	Million £3	Per cent
Great Britain	71.91	14.2	43.80	8.1
India	7.53	1.5	27.04	5.0
Egypt	2.17	0.4	5.92	1.1
Canada	3.02	0.6	3.20	0.6
Australia	4.42	0.9	14.80	2.8
South Africa	2.34	0.5	3.48	0.6
Total, British empire	91.39	18.1	98.24	18.2
France	39.49	7.8	29.21	5.4
Belgium	27.55	5.5	17.23	3.2
Italy	19.67	3.9	15.88	3.0
U.S.A.	35.66	7.1	85.56	15.9
Russia	44.00	8.7	71.23	13.2

Roumania	7.00	1.4	3.99	0.7
Austria-Hungary	55.24	10.9	41.36	7.7
Turkey	4.92	1.0	3.68	0.7
Bulgaria	1.51	0.3	0.40	---
Other countries	178.04	35.3	171.74	32.0
	504.47	100.0	538.52	100.0

The above analysis affords some indication of the possible magnitude of the maximum modification of Germany's export balance under the conditions which will prevail after the peace. On the assumptions (1) that we do not specially favour Germany over ourselves in supplies of such raw materials as cotton and wool (the world's supply of which is limited), (2) that France, having secured the iron-ore deposits, makes a serious attempt to secure the blast furnaces and the steel trade also, (3) that Germany is not encouraged and assisted to undercut the iron and other trades of the Allies in overseas markets, and (4) that a substantial preference is not given to German goods in the British empire, it is evident by examination of the specific items that not much is practicable.

Let us run over the chief items again: (1) Iron goods. In view of Germany's loss of resources, an increased net export seems impossible and a large decrease probable. (2) Machinery. Some increase is possible. (3) Coal and coke. The value of Germany's net export before the war was £22 million; the Allies have agreed that for the time being 20 million tons is the maximum possible export with a problematic (and in fact) impossible increase to 40 million tons at some future time; even on the basis of 20 million tons we have virtually no increase of value, measured in pre-war prices;(54\*) whilst, if this amount is exacted, there must be a decrease of far greater value in the export of manufactured articles requiring coal for their production. (4) Woollen goods. An increase is impossible without the raw wool, and, having regard to the other claims on supplies of raw wool, a decrease is likely. (5) Cotton goods. The same considerations apply as to wool. (6) Cereals. There never was and never can be a net export. (7) Leather goods. The same considerations apply as to wool.

We have now covered nearly half of Germany's pre-war exports, and there is no other commodity which formerly represented as much as 3 per cent of her exports. In what commodity is she to pay? Dyes? -- their total value in 1913 was £10 million. Toys? Potash? -- 1913 exports were worth £3 million. And even if the commodities could be specified, in what markets are they to be sold? -- remembering that we have in mind goods to the value not of tens of millions annually, but of hundreds of millions.

On the side of imports, rather more is possible. By lowering the standard of life, an appreciable reduction of expenditure on imported commodities may be possible. But, as we have already seen, many large items are incapable of reduction without reacting on the volume of exports.

Let us put our guess as high as we can without being foolish, and suppose that after a time Germany will be able, in spite of the reduction of her resources, her facilities, her markets, and her productive power, to increase her exports and diminish her imports so as to improve her trade balance altogether by £100 million annually, measured in pre-war prices. This adjustment is first required to liquidate the adverse trade balance, which in the five years before the war averaged £74 million; but we will assume that after allowing for this, she is left with a favourable trade balance of £50 million a year. Doubling this to allow for the rise in pre-war prices, we have a figure of £100 million. Having regard to the political, social, and human factors, as well as to the purely economic, I doubt if Germany could be made to pay this sum annually over a period of 30 years; but it would not be foolish

to assert or to hope that she could.

Such a figure, allowing 5% for interest, and 1% for repayment of capital, represents a capital sum having a present value of about £1,700 million.(55\*)

I reach, therefore, the final conclusion that, including all methods of payment -- immediately transferable wealth, ceded property, and an annual tribute -- £2,000 million is a safe maximum figure of Germany's capacity to pay. In all the actual circumstances, I do not believe that she can pay as much. Let those who consider this a very low figure, bear in mind the following remarkable comparison. The wealth of France in 1871 was estimated at a little less than half that of Germany in 1913. Apart from changes in the value of money, an indemnity from Germany of £500 million would, therefore, be about comparable to the sum paid by France in 1871; and as the real burden of an indemnity increases more than in proportion to its amount, the payment of £2,000 million by Germany would have far severer consequences than the £200 million paid by France in 1871.

There is only one head under which I see a possibility of adding to the figure reached on the line of argument adopted above; that is, if German labour is actually transported to the devastated areas and there engaged in the work of reconstruction. I have heard that a limited scheme of this kind is actually in view. The additional contribution thus obtainable depends on the number of labourers which the German government could contrive to maintain in this way and also on the number which, over a period of years, the Belgian and French inhabitants would tolerate in their midst. In any case, it would seem very difficult to employ on the actual work of reconstruction, even over a number of years, imported labour having a net present value exceeding (say) £250 million; and even this would not prove in practice a net addition to the annual contributions obtainable in other ways.

A capacity of £8,000 million or even of £5,000 million is, therefore, not within the limits of reasonable possibility. It is for those who believe that Germany can make an annual payment amounting to hundreds of millions sterling to say *in what specific commodities* they intend this payment to be made, and *in what markets* the goods are to be sold. Until they proceed to some degree of detail, and are able to produce some tangible argument in favour of their conclusions, they do not deserve to be believed.(56\*)

I make three provisos only, none of which affect the force of my argument for immediate practical purposes.

*First:* if the Allies were to 'nurse' the trade and industry of Germany for a period of five or ten years, supplying her with large loans, and with ample shipping, food, and raw materials during that period, building up markets for her, and deliberately applying all their resources and goodwill to making her the greatest industrial nation in Europe, if not in the world, a substantially larger sum could probably be extracted thereafter; for Germany is capable of very great productivity.

*Second:* whilst I estimate in terms of money, I assume that there is no revolutionary change in the purchasing power of our unit of value. If the value of gold were to sink to a half or a tenth of its present value, the real burden of a payment fixed in terms of gold would be reduced proportionately. If a gold sovereign comes to be worth what a shilling is worth now, then, of course, Germany can pay a larger sum than I have named, measured in gold sovereigns.

*Third:* I assume that there is no revolutionary change in the yield of nature and material to man's labour. It is not impossible that the progress of science should

bring within our reach methods and devices by which the whole standard of life would be raised immeasurably, and a given volume of products would represent but a portion of the human effort which it represents now. In this case all standards of 'capacity' would be changed everywhere. But the fact that all things are *possible* is no excuse for talking foolishly.

It is true that in 1870 no man could have predicted Germany's capacity in 1910. We cannot expect to legislate for a generation or more. The secular changes in man's economic condition and the liability of human forecast to error are as likely to lead to mistake in one direction as in another. We cannot as reasonable men do better than base our policy on the evidence we have and adapt it to the five or ten years over which we may suppose ourselves to have some measure of prevision; and we are not at fault if we leave on one side the extreme chances of human existence and of revolutionary changes in the order of Nature or of man's relations to her. The fact that we have no adequate knowledge of Germany's capacity to pay over a long period of years is no justification (as I have heard some people claim that it is) for the statement that she can pay ten thousand million pounds.

Why has the world been so credulous of the unveracities of politicians? If an explanation is needed, I attribute this particular credulity to the following influences in part.

In the first place, the vast expenditures of the war, the inflation of prices, and the depreciation of currency, leading up to a complete instability of the unit of value, have made us lose all sense of number and magnitude in matters of finance. What we believed to be the limits of possibility have been so enormously exceeded, and those who founded their expectations on the past have been so often wrong, that the man in the street is now prepared to believe anything which is told him with some show of authority, and the larger the figure the more readily he swallows it.

But those who look into the matter more deeply are sometimes misled by a fallacy much more plausible to reasonable persons. Such a one might base his conclusions on Germany's total surplus of annual productivity as distinct from her export surplus. Helfferich's estimate of Germany's annual increment of wealth in 1913 was £400 million to £425 million (exclusive of increased money value of existing land and property). Before the war, Germany spent between £50 million and £100 million on armaments, with which she can now dispense. Why, therefore, should she not pay over to the Allies an annual sum of £500 million? This puts the crude argument in its strongest and most plausible form.

But there are two errors in it. First of all, Germany's annual savings, after what she has suffered in the war and by the peace, will fall far short of what they were before and, if they are taken from her year by year in future, they cannot again reach their previous level. The loss of Alsace-Lorraine, Poland, and Upper Silesia could not be assessed in terms of surplus productivity at less than £50 million annually.

Germany is supposed to have profited about £100 million per annum from her ships, her foreign investments, and her foreign banking and connections, all of which have now been taken from her. Her saving on armaments is far more than balanced by her annual charge for pensions, now estimated at £250 million,<sup>(57\*)</sup> which represents a real loss of productive capacity. And even if we put on one side the burden of the internal debt, which amounts to 240 milliards of marks, as being a question of internal distribution rather than of productivity, we must still allow for the foreign debt incurred by Germany during the war, the exhaustion of her stock of raw materials, the depletion of her livestock, the impaired productivity of her soil from lack of manures and of labour, and the diminution in her wealth from the failure to keep up many repairs and renewals over a period of nearly five years.

Germany is not as rich as she was before the war, and the diminution in her future savings for these reasons, quite apart from the factors previously allowed for, could hardly be put at less than ten per cent, that is £40 million annually.

These factors have already reduced Germany's annual surplus to less than the £ 100 million at which we arrived on other grounds as the maximum of her annual payments. But even if the rejoinder be made that we have not yet allowed for the lowering of the standard of life and comfort in Germany which may reasonably be imposed on a defeated enemy,(58\*) there is still a fundamental fallacy in the method of calculation. An annual surplus available for home investment can only be converted into a surplus available for export abroad by a radical change in the kind of work performed. Labour, while it may be available and efficient for domestic services in Germany, may yet be able to find no outlet in foreign trade. We are back on the same question which faced us in our examination of the export trade -- in what export trade is German labour going to find a greatly increased outlet? Labour can only be diverted into new channels with loss of efficiency, and a large expenditure of capital. The annual surplus which German labour can produce for capital improvements at home is no measure, either theoretically or practically, of the annual tribute which she can pay abroad.

#### **IV. The Reparation Commission**

This body is so remarkable a construction and may, if it functions at all, exert so wide an influence on the life of Europe, that its attributes deserve a separate examination. There are no precedents for the indemnity imposed on Germany under the present treaty; for the money exactions which formed part of the settlement after previous wars have differed in two fundamental respects from this one. The sum demanded has been determinate and has been measured in a lump sum of money; and so long as the defeated party was meeting the annual instalments of cash, no further interference was necessary.

But for reasons already elucidated, the exactions in this case are not yet determinate, and the sum when fixed will prove in excess of what can be paid in cash and in excess also of what can be paid at all. It was necessary, therefore, to set up a body to establish the bill of claim, to fix the mode of payment, and to approve necessary abatements and delays. It was only possible to place this body in a position to exact the utmost year by year by giving it wide powers over the internal, economic life of the enemy countries who are to be treated henceforward as bankrupt estates to be administered by and for the benefit of the creditors. In fact, however, its powers and functions have been enlarged even beyond what was required for this purpose, and the reparation commission has been established as the final arbiter on numerous economic and financial issues which it was convenient to leave unsettled in the treaty itself.(59\*)

The powers and constitution of the reparation commission are mainly laid down in articles 233-41 and annex II of the reparation chapter of the treaty with Germany. But the same commission is to exercise authority over Austria and Bulgaria, and possibly over Hungary and Turkey, when peace is made with these countries. There are therefore analogous articles *mutatis mutandis* in the Austrian treaty(60\*) and in the Bulgarian treaty.(61\*)

The principal Allies are each represented by one chief delegate. The delegates of the United States, Great Britain, France, and Italy take part in all proceedings; the delegate of Belgium in all proceedings except those attended by the delegates of Japan or the Serb-Croat-Slovene state; the delegate of Japan in all proceedings affecting maritime or specifically Japanese questions; and the delegate of the Serb-

Croat-Slovene state when questions relating to Austria, Hungary, or Bulgaria are under consideration. Other Allies are to be represented by delegates, without the power to vote, whenever their respective claims and interests are under examination.

In general the commission decides by a majority vote, except in certain specific cases where unanimity is required, of which the most important are the cancellation of German indebtedness, long postponement of the instalments, and the sale of German bonds of indebtedness. The commission is endowed with full executive authority to carry out its decisions. It may set up an executive staff and delegate authority to its officers. The commission and its staff are to enjoy diplomatic privileges, and its salaries are to be paid by Germany, who will, however, have no voice in fixing them. If the commission is to discharge adequately its numerous functions, it will be necessary for it to establish a vast polyglot bureaucratic organisation, with a staff of hundreds. To this organisation, the headquarters of which will be in Paris, the economic destiny of Central Europe is to be entrusted.

Its main functions are as follows:

(1) The commission will determine the precise figure of the claim against the enemy Powers by an examination in detail of the claims of each of the Allies under annex I of the reparation chapter. This task must be completed by May 1921. It shall give to the German government and to Germany's allies 'a just opportunity to be heard, but not to take any part whatever in the decisions of the commission'. That is to say, the commission will act as a party and a judge at the same time.

(2) Having determined the claim, it will draw up a schedule of payments providing for the discharge of the whole sum with interest within thirty years. From time to time it shall, with a view to modifying the schedule within the limits of possibility, 'consider the resources and capacity of Germany... giving her representatives a just opportunity to be heard'.

'In periodically estimating Germany's capacity to pay, the commission shall examine the German system of taxation, first, to the end that the sums for reparation which Germany is required to pay shall become a charge upon all her revenues prior to that for the service or discharge of any domestic loan, and secondly, so as to satisfy itself that, in general, the German scheme of taxation is fully as heavy proportionately as that of any of the Powers represented on the commission.'

(3) Up to May 1921 the commission has power, with a view to securing the payment of £1,000 million, to demand the surrender of any piece of German property whatever, wherever situated: that is to say, 'Germany shall pay in such instalments and in such manner, whether in gold, commodities, ships, securities, or otherwise, as the reparation commission may fix'.

(4) The commission will decide which of the rights and interests of German nationals in public utility undertakings operating in Russia, China, Turkey, Austria, Hungary, and Bulgaria, or in any territory formerly belonging to Germany or her allies, are to be expropriated and transferred to the commission itself; it will assess the value of the interests so transferred; and it will divide the spoils.

(5) The commission will determine how much of the resources thus stripped from Germany must be returned to her to keep enough life in her economic organisation to enable her to continue to make reparation payments in future.(62\*)



(6) The commission will assess the value, without appeal or arbitration, of the property and rights ceded under the Armistice, and under the Treaty -- rolling-stock, the mercantile marine, river craft, cattle, the Saar mines, the property in ceded territory for which credit is to be given, and so forth.

(7) The commission will determine the amounts and values (within certain defined limits) of the contributions which Germany is to make in kind year by year under the various annexes to the reparation chapter.

(8) The commission will provide for the restitution by Germany of property which can be identified.

(9) The commission will receive, administer, and distribute all receipts from Germany in cash or in kind. It will also issue and market German bonds of indebtedness.

(10) The commission will assign the share of the pre-war public debt to be taken over by the ceded areas of Schleswig, Poland, Danzig, and Upper Silesia. The commission will also distribute the public debt of the late Austro-Hungarian empire between its constituent parts.

(11) The Commission will liquidate the Austro-Hungarian Bank, and will supervise the withdrawal and replacement of the currency system of the late Austro-Hungarian empire.

(12) It is for the commission to report if, in their judgment, Germany is falling short in fulfilment of her obligations, and to advise methods of coercion.

(13) In general, the commission, acting through a subordinate body, will perform the same functions for Austria and Bulgaria as for Germany, and also, presumably, for Hungary and Turkey.(63\*)

There are also many other relatively minor duties assigned to the commission. The above summary, however, shows sufficiently the scope and significance of its authority. This authority is rendered of far greater significance by the fact that the demands of the treaty generally exceed Germany's capacity. Consequently the clauses which allow the commission to make abatements, if in their judgment the economic conditions of Germany require it, will render it in many different particulars the arbiter of Germany's economic life. The commission is not only to inquire into Germany's general capacity to pay, and to decide (in the early years) what import of foodstuffs and raw materials is necessary; it is authorised to exert pressure on the German system of taxation (annex II, paragraph 12(b))(64\*) and on German internal expenditure, with a view to ensuring that reparation payments are a first charge on the country's entire resources; and it is to decide on the effect on German economic life of demands for machinery, cattle, etc., and of the scheduled deliveries of coal.

By article 240 of the treaty Germany expressly recognises the commission and its powers 'as the same may be constituted by the Allied and Associated governments', and 'agrees irrevocably to the possession and exercise by such commission of the power and authority given to it under the present treaty'. She undertakes to furnish the commission with all relevant information. And finally in article 241, 'Germany undertakes to pass, issue, and maintain in force any legislation, orders, and decrees that may be necessary to give complete effect to these provisions'.

The comments on this of the German financial commission at Versailles were

hardly an exaggeration: 'German democracy is thus annihilated at the very moment when the German people was about to build it up after a severe struggle -- annihilated by the very persons who throughout the war never tired of maintaining that they sought to bring democracy to us... Germany is no longer a people and a state, but becomes a mere trade concern placed by its creditors in the hands of a receiver, without its being granted so much as the opportunity to prove its willingness to meet its obligations of its own accord. The commission, which is to have its permanent headquarters outside Germany, will possess in Germany incomparably greater rights than the German emperor ever possessed; the German people under its régime would remain for decades to come shorn of all rights, and deprived, to a far greater extent than any people in the days of absolutism, of any independence of action, of any individual aspiration in its economic or even in its ethical progress.'

In their reply to these observations the Allies refused to admit that there was any substance, ground, or force in them. 'The observations of the German delegation', they pronounced, 'present a view of this commission so distorted and so inexact that it is difficult to believe that the clauses of the treaty have been calmly or carefully examined. It is not an engine of oppression or a device for interfering with German sovereignty. It has no forces at its command; it has no executive powers within the territory of Germany; it cannot, as is suggested, direct or control the educational or other systems of the country. Its business is to ask what is to be paid; to satisfy itself that Germany can pay; and to report to the Powers, whose delegation it is, in case Germany makes default. If Germany raises the money required in her own way, the commission cannot order that it shall be raised in some other way. If Germany offers payment in kind, the commission may accept such payment, but, except as specified in the treaty itself, the commission cannot require such a payment.'

This is not a candid statement of the scope and authority of the reparation commission, as will be seen by a comparison of its terms with the summary given above or with the treaty itself. Is not, for example, the statement that the commission 'has no forces at its command' a little difficult to justify in view of article 430 of the treaty, which runs: 'In case, either during the occupation or after the expiration of the fifteen years referred to above, the reparation commission finds that Germany refuses to observe the whole or part of her obligations under the present treaty with regard to reparation, the whole or part of the areas specified in article 429 will be reoccupied immediately by the Allied and Associated Powers'? The decision as to whether Germany has kept her engagements and whether it is possible for her to keep them is left, it should be observed, not to the League of Nations, but to the reparation commission itself; and an adverse ruling on the part of the commission is to be followed 'immediately' by the use of armed force. Moreover, the depreciation of the powers of the commission attempted in the Allied reply largely proceeds from the assumption that it is quite open to Germany to 'raise the money required in her own way', in which case it is true that many of the powers of the reparation commission would not come into practical effect; whereas in truth one of the main reasons for setting up the commission at all is the expectation that Germany will not be able to carry the burden nominally laid upon her.

It is reported that the people of Vienna, hearing that a section of the reparation commission is about to visit them, have decided characteristically to pin their hopes on it. A financial body can obviously take nothing from them, for they have nothing; therefore this body must be for the purpose of assisting and relieving them. Thus do the Viennese argue, still light-headed in adversity. But perhaps they are right. The reparation commission will come into very close contact with the

problems of Europe; and it will bear a responsibility proportionate to its powers. It may thus come to fulfil a very different role from that which some of its authors intended for it. Transferred to the League of Nations, an organ of justice and no longer of interest, who knows that by a change of heart and object the reparation commission may not yet be transformed from an instrument of oppression and rapine into an economic council of Europe, whose object is the restoration of life and of happiness, even in the enemy countries?

## V. The German Counter-proposals

The German counter-proposals were somewhat obscure, and also rather disingenuous. It will be remembered that those clauses of the reparation chapter which dealt with the issue of bonds by Germany produced on the public mind the impression that the indemnity had been fixed at £5,000 million, or at any rate at this figure as a minimum. The German delegation set out, therefore, to construct their reply on the basis of this figure, assuming apparently that public opinion in Allied countries would not be satisfied with less than the *appearance* of £5,000 million; and, as they were not really prepared to offer so large a figure, they exercised their ingenuity to produce a formula which might be represented to Allied opinion as yielding this amount, whilst really representing a much more modest sum. The formula produced was transparent to anyone who read it carefully and knew the facts, and it could hardly have been expected by its authors to deceive the Allied negotiators. The German tactic assumed, therefore, that the latter were secretly as anxious as the Germans themselves to arrive at a settlement which bore some relation to the facts, and that they would therefore be willing, in view of the entanglements which they had got themselves into with their own publics, to practise a little collusion in drafting the treaty -- a supposition which in slightly different circumstances might have had a good deal of foundation. As matters actually were, this subtlety did not benefit them, and they would have done much better with a straightforward and candid estimate of what they believed to be the amount of their liabilities on the one hand, and their capacity to pay on the other.

The German offer of an alleged sum of £5,000 million amounted to the following. In the first place it was conditional on concessions in the treaty ensuring that 'Germany shall retain the territorial integrity corresponding to the armistice convention,(65\*) that she shall keep her colonial possessions and merchant ships, including those of large tonnage, that in her own country and in the world at large she shall enjoy the same freedom of action as all other peoples, that all war legislation shall be at once annulled, and that all interferences during the war with her economic rights and with German private property, etc., shall be treated in accordance with the principle of reciprocity'; that is to say, the offer is conditional on the greater part of the rest of the treaty being abandoned. In the second place, the claims are not to exceed a maximum of £5,000 million, of which £1,000 million is to be discharged by 1 May 1926; and no part of this sum is to carry interest pending the payment of it.(66\*) In the third place, there are to be allowed as credits against it (amongst other things): (a) the value of all deliveries under the armistice, including military material (e.g. Germany's navy); (b) the value of all railways and state property in ceded territory. (c) the pro rata, share of all ceded territory in the Germany public debt (including the war debt) and in the reparation payments which this territory would have had to bear if it had remained part of Germany; and (d) the value of the cession of Germany's claims for sums lent by her to her allies in the war.(67\*)

The credits to be deducted under (a), (b), (c), and (d) might be in excess of those allowed in the actual treaty, according to a rough estimate, by a sum of as much as £2,000 million, although the sum to be allowed under (d) can hardly be calculated.

If, therefore, we are to estimate the real value of the German offer of £35,000 million on the basis laid down by the treaty, we must first of all deduct £2,000 million claimed for offsets which the treaty does not allow, and then halve the remainder in order to obtain the present value of a deferred payment on which interest is not chargeable. This reduces the offer to £1,500 million, as compared with the £8,000 million which, according to my rough estimate, the treaty demands of her.

This in itself was a very substantial offer -- indeed it evoked widespread criticism in Germany -- though, in view of the fact that it was conditional on the abandonment of the greater part of the rest of the treaty, it could hardly be regarded as a serious one.(68\*) But the German delegation might have done better if they had stated in less equivocal language how far they felt able to go.

In the final reply of the Allies to this counter-proposal there is one important provision, which I have not attended to hitherto, but which can be conveniently dealt with in this place. Broadly speaking, no concessions were entertained on the reparation chapter as it was originally drafted, but the Allies recognised the inconvenience of the *indeterminacy* of the burden laid upon Germany and proposed a method by which the final total of claim might be established at an earlier date than 1 May 1921. They promised, therefore, that at any time within four months of the signature of the treaty (that is to say, up to the end of October 1919), Germany should be at liberty to submit an offer of a lump sum in settlement of her whole liability as defined in the treaty, and within two months thereafter (that is to say, before the end of 1919) the Allies 'will, so far as may be possible, return their answers to any proposals that may be made.'

This offer is subject to three conditions. 'Firstly, the German authorities will be expected, before making such proposals, to confer with the representatives of the Powers directly concerned. Secondly, such offers must be unambiguous and must be precise and clear. Thirdly, they must accept the categories and the reparation clauses as matters settled beyond discussion.'

The offer, as made, does not appear to contemplate any opening up of the problem of Germany's capacity to pay. It is only concerned with the establishment of the total bill of claims as defined in the treaty -- whether (e.g.) it is £7,000 million, £8,000 million, or £10,000 million. 'The questions', the Allies' reply adds, 'are bare questions of fact, namely, the amount of the liabilities, and they are susceptible of being treated in this way.'

If the promised negotiations are really conducted on these lines, they are not likely to be fruitful. It will not be much easier to arrive at an agreed figure before the end of 1919 than it was at the time of the conference; and it will not help Germany's financial position to know for certain that she is liable for the huge sum which on any computation the treaty liabilities must amount to. These negotiations do offer, however, an opportunity of reopening the whole question of the reparation payments, although it is hardly to be hoped that at so very early a date, public opinion in the countries of the Allies has changed its mood sufficiently.(69\*)

I cannot leave this subject as though its just treatment wholly depended either on our own pledges or on economic facts. The policy of reducing Germany to servitude for a generation, of degrading the lives of millions of human beings, and of depriving a whole nation of happiness should be abhorrent and detestable -- abhorrent and detestable, even if it were possible, even if it enriched ourselves, even if it did not sow the decay of the whole civilised life of Europe. Some preach

it in the name of justice. In the great events of man's history, in the unwinding of the complex fates of nations, justice is not so simple. And if it were, nations are not authorised, by religion or by natural morals, to visit on the children of their enemies the misdoings of parents or of rulers.

#### NOTES:

1. 'With reservation that any future claims and demands of the Allies and the United States of America remain unaffected, the following financial conditions are required: Reparation for damage done. While armistice lasts, no public securities shall be removed by the enemy which can serve as a pledge to the Allies for recovery or reparation of war losses. Immediate restitution of cash deposit in National Bank of Belgium, and, in general, immediate return of all documents, of specie, stock, shares, paper money, together with plant for issue thereof, touching public or private interests in invaded countries. Restitution of Russian and Roumanian gold yielded to Germany or taken by that Power. This gold to be delivered in trust to the Allies until signature of peace.'

2. It is to be noticed, in passing, that they contain nothing which limits the damage to damage inflicted contrary to the recognised rules of warfare. That is to say, it is permissible to include claims arising out of the legitimate capture of a merchantman at sea, as well as the costs of illegal submarine warfare.

3. Mark-paper or mark-credits owned in ex-occupied territory by Allied nationals should be included, if at all, in the settlement of enemy debts, along with other sums owed to Allied nationals, and not in connection with reparation.

4. A special claim on behalf of Belgium was actually included in the peace treaty, and was accepted by the German representatives without demur.

5. To the British observer, one scene, however, stood out distinguished from the rest -- the field of Ypres. In that desolate and ghostly spot, the natural colour and humours of the landscape and the climate seemed designed to express to the traveller the memories of the ground. A visitor to the salient early in November 1918, when a few German bodies still added a touch of realism and human horror, and the great struggle was not yet certainly ended, could feel there, as nowhere else, the present outrage of war, and at the same time the tragic and sentimental purification which to the future will in some degree transform its harshness.

6. These notes, estimated to amount to no less than six thousand million marks, are now a source of embarrassment and great potential loss to the Belgian government, inasmuch as on their recovery of the country they took them over from their nationals in exchange for Belgian notes at the rate of Fr. 1.20 = Mk. 1. This rate of exchange, being substantially in excess of the value of the mark-notes at the rate of exchange current at the time (and enormously in excess of the rate to which the mark-notes have since fallen, the Belgian franc being now worth more than three marks), was the occasion of the smuggling of mark-notes into Belgium on an enormous scale, to take advantage of the profit obtainable. The Belgian government took this very imprudent step partly because they hoped to persuade the peace conference to make the redemption of these bank-notes, at the par of exchange, a first charge on German assets. The peace conference held, however, that reparation proper must take precedence of the adjustment of improvident banking transactions effected at an excessive rate of exchange. The possession by the Belgian government of this great mass of German currency, in addition to an amount of nearly two thousand million marks held by the French government which they similarly exchanged for the benefit of the population of the invaded areas and of Alsace-Lorraine, is a serious aggravation of the exchange position of the mark. It will certainly be desirable for the Belgian and German governments to come to some arrangement as to its disposal, though this is rendered difficult by the prior lien held by the reparation commission over all German assets available for such purposes.

7. It should be added, in fairness, that the very high claims put forward on behalf of Belgium generally include not only devastation proper, but all kinds of other items, as, for example, the profits and earnings which Belgians might reasonably have expected to earn if there had been no war.

8. 'The wealth and income of the chief Powers', by J. C. Stamp (*Journal of the Royal Statistical Society*, July 1919).

9. Other estimates vary from £2,420 million to £2,680 million. See Stamp, *loc. cit.*

10. This was clearly and courageously pointed out by M. Charles Gide in *L'Emancipation* for February 1919.

11. For details of these and other figures, see Stamp, *loc. cit.*

12. Even when the extent of the material damage has been established, it will be exceedingly difficult to

put a price on it, which must largely depend on the period over which restoration is spread, and the methods adopted. It would be impossible to make the damage good in a year or two at any price, and an attempt to do so at a rate which was excessive in relation to the amount of labour and materials at hand might force prices up to almost any level. We must, I think, assume a cost of labour and materials about equal to that current in the world generally. In point of fact, however, we may safely assume that literal restoration will never be attempted. Indeed, it would be very wasteful to do so. Many of the townships were old and unhealthy, and many of the hamlets miserable. To re-erect the same type of building in the same places would be foolish. As for the land, the wise course may be in some cases to leave long strips of it to Nature for many years to come. An aggregate money sum should be computed as fairly representing the value of the material damage, and France should be left to expend it in the manner she thinks wisest with a view to her economic enrichment as a whole. The first breeze of this controversy has already blown through France. A long and inconclusive debate occupied the Chamber during the spring of 1919, as to whether inhabitants of the devastated area receiving compensation should be compelled to expend it in restoring the identical property, or whether they should be free to use it as they like. There was evidently a great deal to be said on both sides; in the former case there would be much hardship and uncertainty for owners who could not, many of them, hope to recover the effective use of their property perhaps for years to come, and yet would not be free to set themselves up elsewhere; on the other hand, if such persons were allowed to take their compensation and go elsewhere, the countryside of northern France would never be put right. Nevertheless I believe that the wise course will be to allow great latitude and let economic motives take their own course.

13. *La Richesse de la France devant la Guerre*, published in 1916.

14. *Revue Bleue*, 3 February 1919. This is quoted in a very valuable selection of French estimates and expressions of opinion, forming chapter iv of *La Liquidation financière de la Guerre*, by H. Charriaut and R. Hacault. The general magnitude of my estimate is further confirmed by the extent of the repairs already effected, as set forth in a speech delivered by M. Tardieu on 10 October 1919, in which he said: 'On 16 September last, of 2,246 kilometres of railway track destroyed, 2,016 had been repaired; of 1,075 kilometres of canal, 700; of 1,160 constructions, such as bridges and tunnels, which had been blown up, 588 had been replaced; of 550,000 houses ruined by bombardment, 60,000 had been rebuilt; and of 1,800,000 hectares of ground rendered useless by battle, 400,000 had been recultivated, 200,000 hectares of which are now ready to be sown. Finally, more than 10,000,000 metres of barbed wire had been removed.'

15. Some of these estimates include allowance for contingent and immaterial damage as well as for direct material injury.

16. A substantial part of this was lost in the service of the Allies; this must not be duplicated by inclusion both in their claims and in ours.

17. The fact that no separate allowance is made in the above for the sinking of 675 fishing vessels of 71,765 tons gross, or for the 1,885 vessels of 8,007,967 tons damaged or molested, but not sunk, may be set off against what may be an excessive figure for replacement cost.

18. The losses of the Greek mercantile marine were excessively high, as a result of the dangers of the Mediterranean; but they were largely incurred on the service of the other Allies, who paid for them directly or indirectly. The claims of Greece for maritime losses incurred on the service of her own nationals would not be very considerable.

19. There is a reservation in the peace treaty on this question. 'The Allied and Associated Powers formally reserve the right of Russia to obtain from Germany restitution and reparation based on the principles of the present treaty' (article 116).

20. Dr Diouritch in his 'Economic and statistical survey of the southern Slav nations' (*Journal of the Royal Statistical Society*, May 1919), quotes some extraordinary figures of the loss of life: 'According to the official returns, the number of those fallen in battle or died in captivity up to the last Serbian offensive amounted to 320,000, which means that one-half of Serbia's male population, from 18 to 60 years of age, perished outright in the European war. In addition, the Serbian medical authorities estimate that about 300,000 people have died from typhus among the civil population, and the losses among the population interned in enemy camps are estimated at 50,000. During the two Serbian retreats and during the Albanian retreat the losses among children and young people are estimated at 200,000. Lastly, during over three years of enemy occupation, the losses in lives owing to the lack of proper food and medical attention are estimated at 250,000.' Altogether, he puts the losses in life at above a million, or more than one-third of the population of Old Serbia.

21. *Come si calcola e a quanto ammonta la ricchezza d'Italia e delle altre principali nazioni*, published in 1919.

22. Very large claims put forward by the Serbian authorities include many hypothetical items of indirect and non-material damage; but these, however real, are not admissible under our present formula.

23. Assuming that in her case £250 million are included for the general expenses of the war defrayed out of loans made to Belgium by her allies.

24. It must be said to Mr Hughes' honour that he apprehended from the first the bearing of the pre-armistice negotiations on our right to demand an indemnity covering the full costs of the war, protested against our ever having entered into such engagements, and maintained loudly that he had been no party to them and could not consider himself bound by them. His indignation may have been partly due to the fact that Australia, not having been ravaged, would have no claims at all under the more limited interpretation of our rights.

25. The whole cost of the war has been estimated at from £24,000 million upwards. This would mean an annual payment of interest (apart from sinking fund) of £1,200 million. Could any expert committee have reported that Germany can pay this sum?

26. But unhappily they did not go down with their flags flying very gloriously. For one reason or another their leaders maintained substantial silence. What a different position in the country's estimation they might hold now if they had suffered defeat amidst firm protests against the fraud, chicane, and dishonour of the whole proceedings.

27. Only after the most painful consideration have I written these words. The almost complete absence of protest from the leading statesmen of England makes one feel that one must have made some mistake. But I believe that I know all the facts, and I can discover no such mistake. In any case, I have set forth all the relevant engagements in chapter 4 and at the beginning of this chapter, so that the reader can form his own judgment.

28. In conversation with Frenchmen who were private persons and quite unaffected by political considerations, this aspect became very clear. You might persuade them that some current estimates as to the amount to be got out of Germany were quite fantastic. Yet at the end they would always come back to where they had started: 'But Germany *must* pay; for, otherwise, what is to happen to France?'

29. A further paragraph claims the war costs of Belgium 'in accordance with Germany's pledges, already given, as to complete restoration for Belgium'.

30. The challenge of the other Allies, as well as of the enemy, had to be met; for in view of the limited resources of the latter, the other Allies had perhaps a greater interest than the enemy in seeing that no one of their number established an excessive claim.

31. M. Klotz has estimated the French claims on this head at £3,000 million (75 milliard francs, made up of 13 milliard for allowances, 60 for pensions, and 2 for widows). If this figure is correct, the others should probably be scaled up also.

32. That is to say, I claim for the aggregate figure an accuracy within 25%.

33. In his speech of 5 September 1919, addressed to the French Chamber, M. Klotz estimated the total Allied claims against Germany under the treaty at £15,000 million, which would accumulate at interest until 1921, and be paid off thereafter by 34 annual instalments of about £1,000 million each, of which France would receive about £550 million annually. 'The general effect of the statement (that France would receive from Germany this annual payment) proved', it is reported, 'appreciably encouraging to the country as a whole, and was immediately reflected in the improved tone on the Bourse and throughout the business world in France.' So long as such statements can be accepted in Paris without protest, there can be no financial or economic future for France, and a catastrophe of disillusion is not far distant.

34. As a matter of subjective judgment, I estimate for this figure an accuracy of 10% in deficiency and 20% in excess, i.e. that the result will lie between £6,400 million and £8,800 million.

35. Germany is also liable under the treaty, as an addition to her liabilities for reparation, to pay all the costs of the armies of occupation *after* peace is signed for the fifteen subsequent years of occupation. So far as the text of the treaty goes, there is nothing to limit the size of these armies, and France could, therefore, by quartering the whole of her normal standing army in the occupied area, shift the charge from her own taxpayers to those of Germany -- though in reality any such policy would be at the expense not of Germany, who by hypothesis is already paying for reparation up to the full limit of her capacity, but of France's allies, who would receive so much less in respect of reparation. A White Paper (Cmd. 240) has, however, been issued, in which is published a declaration by the governments of the United States, Great Britain, and France engaging themselves to limit the sum payable annually by Germany to cover the cost of occupation to £312 million, 'as soon as the Allied and Associated Powers *concerned* are convinced that the conditions of disarmament by Germany are being satisfactorily fulfilled'. The three Powers reserve to themselves the liberty to modify this arrangement at any time if they agree that it is necessary.

36. Article 235. The force of this article is somewhat strengthened by article 251, by virtue of which dispensations may also be granted for 'other payments' as well as for food and raw material.

37. This is the effect of paragraph 12 (c) of annex II of the reparation chapter, leaving minor complications on one side. The treaty fixes the payments in terms of gold marks, which are converted in the above at the rate of 20 to £31.

38. If, *per impossibile*, Germany discharged £500 million in cash or kind by 1921, her annual payments would be at the rate of £62,500,000 from 1921 to 1925 and of £150 million thereafter

39. Paragraph 16 of annex II of the reparation chapter. There is also an obscure provision by which interest may be charged 'on sums arising out of *material* damage as from 11 November 1918 up to 1 May 1921'. This seems to differentiate damage to property from damage to the person in favour of the former. It does not affect pensions and allowances, the cost of which is capitalised as at the date of the coming into force of the treaty.

40. On the assumption which no one supports and even the most optimistic fear to be unpalatable, that Germany can pay the full charge for interest and siding fund *from the outset*, the annual payment would amount to £480 million.

41. Under paragraph 13 of annex II unanimity is required (i) for any postponement beyond 1930 of instalments due between 1921 and 1926, and (ii) for any postponement for more than three years of instalments due after 1926. Further, under article 234, the commission may not cancel any part of the indebtedness without the specific authority of *all* the governments represented on the commission.

42. On 23 July 1914 the amount was £67,800,000.

43. Owing to the very high premium which exists on German silver coin, as the combined result of the depreciation of the mark and the appreciation of silver, it is highly improbable that it will be possible to extract such coin out of the pockets of the people. But it may gradually leak over the frontier by the agency of private speculators, and thus indirectly benefit the German exchange position as a whole.

44. The Allies made the supply of foodstuffs to Germany during the armistice, mentioned above, conditional on the provisional transfer to them of the greater part of the mercantile marine, to be operated by them for the purpose of shipping foodstuffs to Europe generally, and to Germany in particular. The reluctance of the Germans to agree to this was productive of long and dangerous delays in the supply of food, but the abortive conferences of Trèves and Spa (16 January, 14-16 February, and 4-5 March 1919) were at last followed by the agreement of Brussels (14 March 1919). The unwillingness of the Germans to conclude was mainly due to the lack of any absolute guarantee on the part of the Allies that, if they surrendered the ships, they would get the food. But assuming reasonable good faith on the part of the latter (their behaviour in respect of certain other clauses of the armistice, however, had not been impeccable and gave the enemy some just grounds for suspicion), their demand was not an improper one; for without the German ships the business of transporting the food would have been difficult, if not impossible, and the German ships surrendered or their equivalent were in fact almost wholly employed in transporting food to Germany itself. Up to 30 June 1919, 176 German ships of 1,025,388 gross tonnage had been surrendered to the Allies in accordance with the Brussels agreement.

45. The amount of tonnage transferred may be rather greater and the value per ton rather less. The aggregate value involved is not likely, however, to be less than £100 million or greater than £3150 million.

46. This census was carried out by virtue of a decree of 23 August 1916. On 22 March 1917, the German government acquired complete control over the utilisation of foreign securities in German possession; and in May 1917 it began to exercise these powers for the mobilisation of certain Swedish, Danish, and Swiss securities.

47.	£(million)	
1892. Schmoller		500
1892. Christians		650
1893-4. Koch		600
1905. v. Halle		800(†)
1913. Helfferich		1,000(†)
1914. Ballod		1,250
1914. Pistorius		1,250
1919. Hans David		1,050()

† Plus £500 million for investments other than securities.



‡ Net investments, i.e. after allowance for property in Germany owned abroad. This may also be the case with some of the other estimates.

This estimate, given in *Weltwirtschaftszeitung* (13 June 1919), is an estimate of the value of Germany's foreign investments as at the outbreak of war.

48. I have made no deduction for securities in the ownership of Alsace-Lorrainers and others who have now ceased to be German nationals.

49. In all these estimates I am conscious of being driven, by a fear of overstating the case against the treaty, into giving figures in excess of my own real judgment. There is a great difference between putting down on paper fancy estimates of Germany's resources and actually extracting contributions in the form of cash. I do not myself believe that the reparation commission will secure real resources from the above items by May 1921 even as great as the lower of the two figures given above.

50. The treaty (see article 114) leaves it very dubious how far the Danish government is under an obligation to make payments to the reparation commission in respect of its acquisition of Schleswig. They might, for instance, arrange for various offsets such as the value of the mark-notes held by the inhabitants of ceded areas. In any case the amount of money involved is quite small. The Danish government is raising a loan for £6,600,000 (kr. 120,000,000) for the joint purposes of 'taking over Schleswig's share of the German debt, for buying German public property, for helping the Schleswig population, and for settling the currency question'.

51. Here again my own judgment would carry me much further and I should doubt the possibility of Germany's exports equalling her imports during this period. But the statement in the text goes far enough for the purpose of my argument.

52. It has been estimated that the cession of territory to France, apart from the loss of Upper Silesia, may reduce Germany's annual pre-war production of steel ingots from 20 million tons to 14 million tons, and increase France's capacity from 5 million tons to 11 million tons.

53. Germany's exports of sugar in 1913 amounted to 1,110,073 tons of the value of £13,094,300, of which 838,583 tons were exported to the United Kingdom at a value of £9,050,800. These figures were in excess of the normal, the average total exports for the five years ending 1913 being about £10 million.

54. The necessary price adjustment which is required on both sides of this account will be made en bloc later.

55. If the amount of the sinking fund be reduced, and the annual payment is continued over a greater number of years, the present value -- so powerful is the operation of compound interest -- cannot be materially increased. A payment of £100 million annually *in perpetuity*, assuming interest, as before, at 5%, would only raise the present value to £2,000 million.

56. As an example of public misapprehension on economic affairs, the following letter from Sir Sidney Low to *The Times* of 3 December 1918 deserves quotation: 'I have seen authoritative estimates which place the gross value of Germany's mineral and chemical resources as high as £250,000 million sterling or even more; and the Ruhr basin mines alone are said to be worth over £45,000 million. It is certain, at any rate, that the capital value of these natural supplies is much greater than the total war debts of all the Allied states. Why should not some portion of this wealth be diverted for a sufficient period from its present owners and assigned to the peoples whom Germany has assailed, deported, and injured? The Allied governments might justly require Germany to surrender to them the use of such of her mines and mineral deposits as would yield, say, from 100 to 200 millions annually for the next 30, 40, or 50 years. By this means we could obtain sufficient compensation from Germany without unduly stimulating her manufactures and export trade to our detriment.' It is not clear why, if Germany has wealth exceeding £250,000 million sterling, Sir Sidney Low is content with the trifling sum of 100 to 200 millions annually. But his letter is an admirable *reductio ad absurdum* of a certain line of thought. While a mode of calculation which estimates the value of coal miles deep in the bowels of the earth as high as in a coal scuttle, of an annual lease of £1,000 for 999 years at £999,000 and of a field (presumably) at the value of all the crops it will grow to the end of recorded time, opens up great possibilities, it is also double-edged. If Germany's total resources are worth £250,000 million, those she will part with in the cession of Alsace-Lorraine and Upper Silesia should be more than sufficient to pay the entire costs of the war and reparation together. In point of fact, the present market value of all the mines in Germany of every kind has been estimated at £300 million, or a little more than one-thousandth part of Sir Sidney Low's expectations.

57. The conversion at par of 5,000 million marks overstates by reason of the existing depreciation of the mark, the present money burden of the actual pensions payments, but not, in all probability, the real loss of national productivity as a result of the casualties suffered in the war.

58. It cannot be overlooked, in passing, that in its results on a country's surplus productivity a lowering

of the standard of life acts both ways. Moreover, we are without experience of the psychology of a white race under conditions little short of servitude. It is, however, generally supposed that if the whole of a man's surplus production is taken from him, his efficiency and his industry are diminished. The entrepreneur and the inventor will not contrive, the trader and shopkeeper will not save, the labourer will not toil, if the fruits of their industry are set aside, not for the benefit of their children, their old age, their pride, or their position, but for the enjoyment of a foreign conqueror.

59. In the course of the compromises and delays of the conference, there were many questions on which, in order to reach any conclusion at all, it was necessary to leave a margin of vagueness and uncertainty. The whole method of the conference tended towards this -- the Council of Four wanted, not so much a settlement, as a treaty. On political and territorial questions the tendency was to leave the final arbitrament to the League of Nations. But on financial and economic questions the final decision has generally been left with the reparation commission, in spite of its being an executive body composed of interested parties.

60. The sum to be paid by Austria for reparation is left to the absolute discretion of the reparation commission, no determinate figure of any kind being mentioned in the text of the treaty. Austrian questions are to be handled by a special section of the reparation commission, but the section will have no powers except such as the main commission may delegate.

61. Bulgaria is to pay an indemnity of £90 million by half-yearly instalments, beginning 1 July 1920. These sums will be collected, on behalf of the reparation commission, by an inter-Ally commission of control, with its seat at Sofia. In some respects the Bulgarian inter-Ally commission appears to have powers and authority independent of the reparation commission, but it is to act, nevertheless, as the agent of the later, and is authorised to tender advice to the reparation commission as to, for example, the reduction of the half-yearly instalments.

62. Under the treaty this is the function of any body appointed for the purpose by the principal Allied and Associated governments, and not necessarily of the reparation commission. But it may be presumed that no second body will be established for this special purpose.

63. At the date of writing no treaties with these countries have been drafted. It is possible that Turkey might be dealt with by a separate commission.

64. This appears to me to be in effect the position (if this paragraph means anything at all), in spite of the following disclaimer of such intentions in the Allies' reply: 'Nor does paragraph 12 (b) of annex II give the commission powers to prescribe or enforce taxes or to dictate the character of the German budget.'

65. Whatever that may mean.

66. Assuming that the capital sum is discharged evenly over a period as short as thirty-three years, this has the effect of *halving* the burden as compared with the payments required on the basis of 5% interest on the outstanding capital.

67. I forbear to outline further details of the German offer as the above are the essential points.

68. For this reason it is not strictly comparable with my estimate of Germany's capacity in an earlier section of this chapter, which estimate is on the basis of Germany's condition as it will be when the rest of the treaty has come into effect.

69. Owing to delays on the part of the Allies in ratifying the treaty, the reparation commission had not yet been formally constituted by the end of October 1919. So far as I am aware, therefore, nothing has been done to make the above offer effective. But perhaps, in view of the circumstances, there has been an extension of the date.