

Space for Notes



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Chapter 7: Remedies

It is difficult to maintain true perspective in large affairs. I have criticised the work of Paris, and have depicted in sombre colours the condition and the prospects of Europe. This is one aspect of the position and, I believe, a true one. But in so complex a phenomenon the prognostics do not all point one way; and we may make the error of expecting consequences to follow too swiftly and too inevitably from what perhaps are not all the relevant causes. The blackness of the prospect itself leads us to doubt its accuracy; our imagination is dulled rather than stimulated by too woeful a narration, and our minds rebound from what is felt 'too bad to be true'. But before the reader allows himself to be too much swayed by these natural reflections, and before I lead him, as is the intention of this chapter, towards ameliorations remedies and the discovery of happier tendencies, let him redress the balance of his thought by recalling two contrasts -- England and Russia, of which the one may encourage his optimism too much, but the other should remind him that catastrophes can still happen, and that modern society is not immune from the very greatest evils.

In the chapters of this book I have not generally had in mind the situation or the problems of England. 'Europe' in my narration must generally be interpreted to exclude the British Isles. England is in a state of transition, and her economic problems are serious. We may be on the eve of great changes in her social and industrial structure. Some of us may welcome such prospects and some of us deplore them. But they are of a different kind altogether from those impending on Europe. I do not perceive in England the slightest possibility of catastrophe or any serious likelihood of a general upheaval of society. The war has impoverished us, but not seriously -- I should judge that the real wealth of the country in 1919 is at least equal to what it was in 1900. Our balance of trade is adverse, but not so much so that the readjustment of it need disorder our economic life. (1*) The deficit in our budget is large, but not beyond what firm and prudent statesmanship could bridge. The shortening of the hours of labour may have somewhat diminished our productivity. But it should not be too much to hope that this is a feature of transition, and no one who is acquainted with the British working man can doubt that, if it suits him, and if he is in sympathy and reasonable contentment with the conditions of his life, he can produce at least as much in a shorter working day as he did in the longer hours which prevailed formerly. The most serious problems for England have been brought to a head by the war, but are in their origins more fundamental. The forces of the nineteenth century have run their course and are exhausted. The economic motives and ideals of that generation no longer satisfy us: we must find a new way and must suffer again the malaise, and finally the pangs, of a new industrial birth. This is one element. The other is that on which I have enlarged in chapter 2 -- the increase in the real cost of food and the diminishing response of Nature to any further increase in the population of the world, a tendency which must be especially injurious to the greatest of all industrial countries and the most dependent on imported supplies of food.

But these secular problems are such as no age is free from. They are of an altogether different order from those which may afflict the peoples of Central Europe. Those readers who, chiefly mindful of the British conditions with which

they are familiar, are apt to indulge their optimism, and still more those whose immediate environment is American, must cast their minds to Russia, Turkey, Hungary, or Austria, where the most dreadful material evils which men can suffer - - famine, cold, disease, war, murder, and anarchy -- are an actual present experience, if they are to apprehend the character of the misfortunes against the further extension of which it must surely be our duty to seek the remedy, if there is one.

What then is to be done? The tentative suggestions of this chapter may appear to the reader inadequate. But the opportunity was missed at Paris during the six months which followed the armistice, and nothing we can do now can repair the mischief wrought at that time. Great privation and great risks to society have become unavoidable. All that is now open to us is to redirect, so far as lies in our power, the fundamental economic tendencies which underlie the events of the hour, so that they promote the re-establishment of prosperity and order, instead of leading us deeper into misfortune.

We must first escape from the atmosphere and the methods of Paris. Those who controlled the conference may bow before the gusts of popular opinion, but they will never lead us out of our troubles. It is hardly to be supposed that the Council of Four can retrace their steps, even if they wished to do so. The replacement of the existing governments of Europe is, therefore, an almost indispensable preliminary.

I propose then to discuss a programme, for those who believe that the Peace of Versailles cannot stand, under the following heads:

- I. The revision of the treaty.
- II. The settlement of inter-Ally indebtedness.
- III. An international loan and the reform of the currency.
- IV. The relations of Central Europe to Russia.

I. The Revision of the Treaty

Are any constitutional means open to us for altering the treaty? President Wilson and General Smuts, who believe that to have secured the covenant of the League of Nations outweighs much evil in the rest of the treaty, have indicated that we must look to the League for the gradual evolution of a more tolerable life for Europe. 'There are territorial settlements', General Smuts wrote in his statement on signing the peace treaty, 'which will need revision. There are guarantees laid down which we all hope will soon be found out of harmony with the new peaceful temper and unarmed state of our former enemies. There are punishments foreshadowed over most of which a calmer mood may yet prefer to pass the sponge of oblivion. There are indemnities stipulated which cannot be enacted without grave injury to the industrial revival of Europe, and which it will be in the interests of all to render more tolerable and moderate... I am confident that the League of Nations will yet prove the path of escape for Europe out of the ruin brought about by this war.' Without the League, President Wilson informed the Senate when he presented the treaty to them early in July 1919, '... long-continued supervision of the task of reparation which Germany was to undertake to complete within the next generation might entirely break down;(2*) the reconsideration and revision of administrative arrangements and restrictions which the treaty prescribed, but which it recognised might not provide lasting advantage or be entirely fair if too long enforced, would be impracticable.'

Can we look forward with fair hopes to securing from the operation of the League those benefits which two of its principal begetters thus encourage us to expect from

it? The relevant passage is to be found in article XIX of the covenant, which runs as follows: 'The assembly may from time to time advise the reconsideration by members of the League of treaties which have become inapplicable and the consideration of international conditions whose continuance might endanger the peace of the world.'

But alas! Article V provides that 'Except where otherwise expressly provided in this covenant or by the terms of the present treaty, decisions at any meeting of the assembly or of the council shall require the agreement of all the members of the League represented at the meeting.' Does not this provision reduce the League, so far as concerns an early reconsideration of any of the terms of the peace treaty, into a body merely for wasting time? If all the parties to the treaty are unanimously of opinion that it requires alteration in a particular sense, it does not need a League and a covenant to put the business through. Even when the assembly of the League is unanimous it can only 'advise' reconsideration by the members specially affected.

But the League will operate, say its supporters, by its influence on the public opinion of the world, and the view of the majority will carry decisive weight in practice, even though constitutionally it is of no effect. Let us pray that this be so. Yet the League in the hands of the trained European diplomatist may become an unequalled instrument for obstruction and delay. The revision of treaties is entrusted primarily, not to the council, which meets frequently, but to the assembly, which will meet more rarely and must become, as any one with an experience of large inter-Ally conferences must know, an unwieldy polyglot debating society in which the greatest resolution and the best management may fail altogether to bring issues to a head against an opposition in favour of the *status quo*. There are indeed two disastrous blots on the covenant -- article V, which prescribes unanimity, and the much-criticised article X, by which 'The members of the League undertake to respect and preserve as against external aggression the territorial integrity and existing political independence of all members of the League.' These two articles together go some way to destroy the conception of the League as an instrument of progress, and to equip it from the outset with an almost fatal bias towards the *status quo*. It is these articles which have reconciled to the League some of its original opponents, who now hope to make of it another Holy Alliance for the perpetuation of the economic ruin of their enemies and the balance of power in their own interests which they believe themselves to have established by the peace.

But while it would be wrong and foolish to conceal from ourselves in the interests of 'idealism' the real difficulties of the position in the special matter of revising treaties, that is no reason for any of us to decry the League, which the wisdom of the world may yet transform into a powerful instrument of peace, and which in articles XI-XVII(3*) has already accomplished a great and beneficent achievement. I agree, therefore, that our first efforts for the revision of the treaty must be made through the League rather than in any other way, in the hope that the force of general opinion, and if necessary, the use of financial pressure and financial inducements, may be enough to prevent a recalcitrant minority from exercising their right of veto. We must trust the new governments, whose existence I premise in the principal Allied countries, to show a profounder wisdom and a greater magnanimity than their predecessors.

We have seen in chapters 4 and 5 that there are numerous particulars in which the treaty is objectionable. I do not intend to enter here into details, or to attempt a revision of the treaty clause by clause. I limit myself to three great changes which are necessary for the economic life of Europe, relating to reparation, to coal and iron, and to tariffs.

Reparation. If the sum demanded for reparation is less than what the Allies are entitled to on a strict interpretation of their engagements, it is unnecessary to particularise the items it represents or to hear arguments about its compilation. I suggest, therefore, the following settlement:

(1) The amount of the payment to be made by Germany in respect of reparation and the costs of the armies of occupation might be fixed at £32,000 million.

(2) The surrender of merchant ships and submarine cables under the treaty, of war material under the armistice, of state property in ceded territory, of claims against such territory in respect of public debt, and of Germany's claims against her former Allies, should be reckoned as worth the lump sum of £3500 million, without any attempt being made to evaluate them item by item.

(3) The balance of £31,500 million should not carry interest pending its repayment, and should be paid by Germany in thirty annual instalments of £350 million, beginning in 1923.

(4) The reparation commission should be dissolved or, if any duties remain for it to perform, it should become an appanage of the League of Nations and should include representatives of Germany and of the neutral states.

(5) Germany would be left to meet the annual instalments in such manner as she might see fit, any complaint against her for non-fulfilment of her obligations being lodged with the League of Nations. That is to say, there would be no further expropriation of German private property abroad, except so far as is required to meet private German obligations out of the proceeds of such property already liquidated or in the hands of public trustees and enemy-property custodians in the Allied countries and in the United States; and, in particular, article 260 (which provides for the expropriation of German interests in public utility enterprises) would be abrogated.

(6) No attempt should be made to extract reparation payments from Austria.

Coal and iron. (1) The Allies' options on coal under annex V should be abandoned, but Germany's obligation to make good France's loss of coal through the destruction of her mines should remain. That is to say, Germany should undertake 'to deliver to France annually for a period not exceeding ten years an amount of coal equal to the difference between the annual production before the war of the coal-mines of the Nord and Pas de Calais, destroyed as a result of the war, and the production of the mines of the same area during the years in question; such delivery not to exceed 20 million tons in any one year of the first five years, and 8 million tons in any one year of the succeeding five years.' This obligation should lapse, nevertheless, in the event of the coal districts of Upper Silesia being taken from Germany in the final settlement consequent on the plebiscite.

(2) The arrangement as to the Saar should hold good, except that, on the one hand, Germany should receive no credit for the mines, and, on the other, should receive back both the mines and the territory without payment and unconditionally after ten years. But this should be conditional on France's entering into an agreement for the same period to supply Germany from Lorraine with at least 50% of the iron ore which was carried from Lorraine into Germany proper before the war, in return for an undertaking from Germany to supply Lorraine with an amount of coal equal to the whole amount formerly sent to Lorraine from Germany proper, after allowing for the output of the Saar.

(3) The arrangement as to Upper Silesia should hold good. That is to say, a plebiscite should be held, and in coming to a final decision 'regard will be paid (by the principal Allied and Associated Powers) to the wishes of the inhabitants as shown by the vote, and to the geographical and economic conditions of the locality'. But the Allies should declare that in their judgment 'economic conditions' require the inclusion of the coal districts in Germany unless the wishes of the inhabitants are decidedly to the contrary.

(4) The coal commission already established by the Allies should become an appanage of the League of Nations, and should be enlarged to include representatives of Germany and the other states of Central and Eastern Europe, of the northern neutrals, and of Switzerland. Its authority should be advisory only, but should extend over the distribution of the coal supplies of Germany, Poland, and the constituent parts of the former Austro-Hungarian empire, and of the exportable surplus of the United Kingdom. All the states represented on the commission should undertake to furnish it with the fullest information, and to be guided by its advice so far as their sovereignty and their vital interests permit.

Tariffs. A free trade union should be established under the auspices of the League of Nations of countries undertaking to impose no protectionist tariffs(4*) whatever against the produce of other members of the union. Germany, Poland, the new states which formerly composed the Austro-Hungarian and Turkish empires, and the mandated states should be compelled to adhere to this union for ten years, after which time adherence would be voluntary. The adherence of other states would be voluntary from the outset. But it is to be hoped that the United Kingdom, at any rate, would become an original member.

By fixing the reparation payments well within Germany's capacity to pay, we make possible the renewal of hope and enterprise within her territory, we avoid the perpetual friction and opportunity of improper pressure arising out of treaty clauses which are impossible of fulfilment, and we render unnecessary the intolerable powers of the reparation commission.

By a moderation of the clauses relating directly or indirectly to coal, and by the exchange of iron ore, we permit the continuance of Germany's industrial life, and put limits on the loss of productivity which would be brought about otherwise by the interference of political frontiers with the natural localisation of the iron and steel industry.

By the proposed free trade union some part of the loss of organisation and economic efficiency may be retrieved which must otherwise result from the innumerable new political frontiers now created between greedy, jealous, immature, and economically incomplete, nationalist states. Economic frontiers were tolerable so long as an immense territory was included in a few great empires; but they will not be tolerable when the empires of Germany, Austria-Hungary, Russia, and Turkey have been partitioned between some twenty independent authorities. A free trade union, comprising the whole of Central, Eastern, and south-Eastern Europe, Siberia, Turkey, and (I should hope) the United Kingdom, Egypt, and India, might do as much for the peace and prosperity of the world as the League of Nations itself. Belgium, Holland, Scandinavia, and Switzerland might be expected to adhere to it shortly. And it would be greatly to be desired by their friends that France and Italy also should see their way to adhesion.

It would be objected, I suppose, by some critics that such an arrangement might go some way in effect towards realising the former German dream of Mittel-Europa. If

other countries were so foolish as to remain outside the union and to leave to Germany all its advantages, there might be some truth in this. But an economic system, to which everyone had the opportunity of belonging and which gave special privilege to none, is surely absolutely free from the objections of a privileged and avowedly imperialistic scheme of exclusion and discrimination. Our attitude to these criticisms must be determined by our whole moral and emotional reaction to the future of international relations and the peace of the world. If we take the view that for at least a generation to come Germany cannot be trusted with even a modicum of prosperity, that while all our recent allies are angels of light, all our recent enemies, Germans, Austrians, Hungarians, and the rest, are children of the devil, that year by year Germany must be kept impoverished and her children starved and crippled, and that she must be ringed round by enemies; then we shall reject all the proposals of this chapter, and particularly those which may assist Germany to regain a part of her former material prosperity and find a means of livelihood for the industrial population of her towns. But if this view of nations and of their relation to one another is adopted by the democracies of Western Europe, and is financed by the United States, heaven help us all. If we aim deliberately at the impoverishment of Central Europe, vengeance, I dare predict, will not limp. Nothing can then delay for very long that final civil war between the forces of reaction and the despairing convulsions of revolution, before which the horrors of the late German war will fade into nothing, and which will destroy, whoever is victor, the civilisation and the progress of our generation. Even though the result disappoint us, must we not base our actions on better expectations, and believe that the prosperity and happiness of one country promotes that of others, that the solidarity of man is not a fiction, and that nations can still afford to treat other nations as fellow-creatures?

Such changes as I have proposed above might do something appreciable to enable the industrial populations of Europe to continue to earn a livelihood. But they would not be enough by themselves. In particular, France would be a loser on paper (on paper only, for she will never secure the actual fulfilment of her present claims), and an escape from her embarrassments must be shown her in some other direction. I proceed, therefore, to proposals, first, for the adjustment of the claims of America and the Allies amongst themselves; and second, for the provision of sufficient credit to enable Europe to re-create her stock of circulating capital.

II. The Settlement of Inter-ally Indebtedness

In proposing a modification of the reparation terms, I have considered them so far only in relation to Germany. But fairness requires that so great a reduction in the amount should be accompanied by a readjustment of its apportionment between the Allies themselves. The professions which our statesmen made on every platform during the war, as well as other considerations, surely require that the areas damaged by the enemy's invasion should receive a priority of compensation. While this was one of the ultimate objects for which we said we were fighting, we never included the recovery of separation allowances amongst our war aims. I suggest, therefore, that we should by our acts prove ourselves sincere and trustworthy, and that accordingly Great Britain should waive altogether her claims for cash payment, in favour of Belgium, Serbia, and France. The whole of the payments made by Germany would then be subject to the prior charge of repairing the material injury done to those countries and provinces which suffered actual invasion by the enemy; and I believe that the sum of £31,500 million thus available would be adequate to cover entirely the actual costs of restoration. Further, it is only by a complete subordination of her own claims for cash compensation that Great Britain can ask with clean hands for a revision of the treaty and clear her honour from the breach of faith for which she bears the main responsibility, as a result of the policy to which

the General Election of 1918 pledged her representatives.

With the reparation problem thus cleared up it would be possible to bring forward with a better grace and more hope of success two other financial proposals, each of which involves an appeal to the generosity of the United States.

Loans to	By US Million £	By UK Million £	By France Million £	Total Million £
UK	842	--	--	842
France	550	508	--	1,058
Italy	325	467	35	827
Russia	38	568(5*)	160	766
Belgium	80	98(6*)	90	268
Serbia and Jugoslavia	20	202	20	60
Other Allies	35	79	50	164
Total	1,900(7*)	1,740	355	3,995

The first is for the entire cancellation of inter-Ally indebtedness (that is to say, indebtedness between the governments of the Allied and Associated countries) incurred for the purposes of the war. This proposal, which has been put forward already in certain quarters, is one which I believe to be absolutely essential to the future prosperity of the world. It would be an act of farseeing statesmanship for the United Kingdom and the United States, the two Powers chiefly concerned, to adopt it. The sums of money which are involved are shown approximately in the above table.(8*)

Thus the total volume of inter-Ally indebtedness, assuming that loans from one Ally are not set off against loans to another, is nearly £34,000 million. The United States is a lender only. The United Kingdom has lent about twice as much as she has borrowed. France has borrowed about three times as much as she has lent. The other Allies have been borrowers only.

If all the above inter-Ally indebtedness were mutually forgiven, the net result on paper (i.e. assuming all the loans to be good) would be a surrender by the United States of about £2,000 million and by the United Kingdom of about £900 million. France would gain about £700 million and Italy about £800 million. But these figures overstate the loss to the United Kingdom and understate the gain to France; for a large part of the loans made by both these countries has been to Russia and cannot, by any stretch of imagination, be considered good. If the loans which the United Kingdom has made to her allies are reckoned to be worth 50 % of their full value (an arbitrary but convenient assumption which the Chancellor of the Exchequer has adopted on more than one occasion as being as good as any other for the purposes of an approximate national balance sheet), the operation would involve her neither in loss nor in gain. But in whatever way the net result is calculated on paper, the relief in anxiety which such a liquidation of the position would carry with it would be very great. It is from the United States, therefore, that the proposal asks generosity.

Speaking with a very intimate knowledge of the relations throughout the war between the British, the American, and the other Allied treasuries, I believe this to be an act of generosity for which Europe can fairly ask, provided Europe is making an honourable attempt in other directions not to continue war, economic or otherwise, but to achieve the economic reconstitution of the whole continent. The

financial sacrifices of the United States have been, in proportion to her wealth, immensely less than those of the European states. This could hardly have been otherwise. It was a European quarrel, in which the United States government could not have justified itself before its citizens in expending the whole national strength, as did the Europeans. After the United States came into the war her financial assistance was lavish and unstinted, and without this assistance the Allies could never have won the war,(9*) quite apart from the decisive influence of the arrival of the American troops. Europe, too, should never forget the extraordinary assistance afforded her during the first six months of 1919 through the agency of Mr Hoover and the American commission of relief. Never was a nobler work of disinterested goodwill carried through with more tenacity and sincerity and skill, and with less thanks either asked or given. The ungrateful governments of Europe owe much more to the statesmanship and insight of Mr Hoover and his band of American workers than they have yet appreciated or will ever acknowledge. The American relief commission, and they only, saw the European position during those months in its true perspective and felt towards it as men should. It was their efforts, their energy, and the American resources placed by the President at their disposal, often acting in the teeth of European obstruction, which not only saved an immense amount of human suffering, but averted a widespread breakdown of the European system.(10*)

But in speaking thus as we do of American financial assistance, we tacitly assume, and America, I believe, assumed it too when she gave the money, that it was not in the nature of an investment. If Europe is going to repay the £2,000 million worth of financial assistance which she has had from the United States with compound interest at 5%, the matter takes on quite a different complexion. If America's advances are to be regarded in this light, her relative financial sacrifice has been very slight indeed.

Controversies as to relative sacrifice are very barren and very foolish also; for there is no reason in the world why relative sacrifice should necessarily be equal -- so many other very relevant considerations being quite different in the two cases. The two or three facts following are put forward, therefore, not to suggest that they provide any compelling argument for Americans, but only to show that from his own selfish point of view an Englishman is not seeking to avoid due sacrifice on his country's part in making the present suggestion. (1) The sums which the British Treasury borrowed from the American Treasury, after the latter came into the war, were approximately offset by the sums which England lent to her other allies *during the same period* (i.e. excluding sums lent before the United States came into the war); so that almost the whole of England's indebtedness to the United States was incurred, not on her own account, but to enable her to assist the rest of her allies, who were for various reasons not in a position to draw their assistance from the United States direct.(11*) (2) The United Kingdom has disposed of about £1,000 million worth of her foreign securities, and in addition has incurred foreign debt to the amount of about £1,200 million. The United States, so far from selling, has bought back upwards of £1,000 million, and has incurred practically no foreign debt. (3) The population of the United Kingdom is about one-half that of the United States, the income about one-third, and the accumulated wealth between one-half and one-third. The financial capacity of the United Kingdom may therefore be put at about two-fifths that of the United States. This figure enables us to make the following comparison: Excluding loans to allies in each case (as is right on the assumption that these loans are to be repaid), the war expenditure of the United Kingdom has been about three times that of the United States, or in proportion to capacity between seven and eight times.

Having cleared this issue out of the way as briefly as possible, I turn to the broader

issues of the future relations between the parties to the late war, by which the present proposal must primarily be judged.

Failing such a settlement as is now proposed, the war will have ended with a network of heavy tribute payable from one Ally to another. The total amount of this tribute is even likely to exceed the amount obtainable from the enemy; and the war will have ended with the intolerable result of the Allies paying indemnities to one another instead of receiving them from the enemy.

For this reason the question of inter-Allied indebtedness is closely bound up with the intense popular feeling amongst the European Allies on the question of indemnities -- a feeling which is based, not on any reasonable calculation of what Germany can, in fact, pay, but on a well-founded appreciation of the unbearable financial situation in which these countries will find themselves unless she pays. Take Italy as an extreme example. If Italy can reasonably be expected to pay £800 million, surely Germany can and ought to pay an immeasurably higher figure. Or if it is decided (as it must be) that Austria can pay next to nothing, is it not an intolerable conclusion that Italy should be loaded with a crushing tribute, while Austria escapes? Or, to put it slightly differently, how can Italy be expected to submit to payment of this great sum and see Czechoslovakia pay little or nothing? At the other end of the scale there is the United Kingdom. Here the financial position is different, since to ask us to pay £3800 million is a very different proposition from asking Italy to pay it. But the sentiment is much the same. If we have to be satisfied without full compensation from Germany, how bitter will be the protests against paying it to the United States. We, it will be said, have to be content with a claim against the bankrupt estates of Germany, France, Italy, and Russia, whereas the United States has secured a first mortgage upon us. The case of France is at least as overwhelming. She can barely secure from Germany the full measure of the destruction of her countryside. Yet victorious France must pay her friends and allies more than four times the indemnity which in the defeat of 1870 she paid Germany. The hand of Bismarck was light compared with that of an Ally or of an associate. A settlement of inter-Ally indebtedness is, therefore, an indispensable preliminary to the peoples of the Allied countries facing, with other than a maddened and exasperated heart, the inevitable truth about the prospects of an indemnity from the enemy.

It might be an exaggeration to say that it is impossible for the European Allies to pay the capital and interest due from them on these debts, but to make them do so would certainly be to impose a crushing burden. They may be expected, therefore, to make constant attempts to evade or escape payment, and these attempts will be a constant source of international friction and ill-will for many years to come. A debtor nation does not love its creditor, and it is fruitless to expect feelings of goodwill from France, Italy and Russia towards this country or towards America, if their future development is stifled for many years to come by the annual tribute which they must pay us. There will be a great incentive to them to seek their friends in other directions, and any future rupture of peaceable relations will always carry with it the enormous advantage of escaping the payment of external debts. If, on the other hand, these great debts are forgiven, a stimulus will be given to the solidarity and true friendliness of the nations lately associated.

The existence of the great war debts is a menace to financial stability everywhere. There is no European country in which repudiation may not soon become an important political issue. In the case of internal debt, however, there are interested parties on both sides, and the question is one of the internal distribution of wealth. With external debts this is not so, and the creditor nations may soon find their interest inconveniently bound up with the maintenance of a particular type of

government or economic organisation in the debtor countries. Entangling alliances or entangling leagues are nothing to the entanglements of cash owing.

The final consideration influencing the reader's attitude to this proposal must, however, depend on his view as to the future place in the world's progress of the vast paper entanglements which are our legacy from war finance both at home and abroad. The war has ended with everyone owing everyone else immense sums of money. Germany owes a large sum to the Allies; the Allies owe a large sum to Great Britain; and Great Britain owes a large sum to the United States. The holders of war loan in every country are owed a large sum by the state; and the state in its turn is owed a large sum by these and other taxpayers. The whole position is in the highest degree artificial, misleading, and vexatious. We shall never be able to move again, unless we can free our limbs from these paper shackles. A general bonfire is so great a necessity that unless we can make of it an orderly and good-tempered affair in which no serious injustice is done to anyone, it will, when it comes at last, grow into a conflagration that may destroy much else as well. As regards internal debt, I am one of those who believe that a capital levy for the extinction of debt is an absolute prerequisite of sound finance in every one of the European belligerent countries. But the continuance on a huge scale of indebtedness between governments has special dangers of its own.

Before the middle of the nineteenth century no nation owed payments to a foreign nation on any considerable scale, except such tributes as were exacted under the compulsion of actual occupation in force and, at one time, by absentee princes under the sanctions of feudalism. It is true that the need for European capitalism to find an outlet in the New World has led during the past fifty years, though even now on a relatively modest scale, to such countries as Argentina owing an annual sum to such countries as England. But the system is fragile; and it has only survived because its burden on the paying countries has not so far been oppressive, because this burden is represented by real assets and is bound up with the property system generally, and because the sums already lent are not unduly large in relation to those which it is still hoped to borrow. Bankers are used to this system, and believe it to be a necessary part of the permanent order of society. They are disposed to believe, therefore, by analogy with it, that a comparable system between governments, on a far vaster and definitely oppressive scale, represented by no real assets, and less closely associated with the property system, is natural and reasonable and in conformity with human nature.

I doubt this view of the world. Even capitalism at home, which engages many local sympathies, which plays a real part in the daily process of production, and upon the security of which the present organisation of society largely depends, is not very safe. But however this may be, will the discontented peoples of Europe be willing for a generation to come so to order their lives that an appreciable part of their daily produce may be available to meet a foreign payment the reason for which, whether as between Europe and America, or as between Germany and the rest of Europe, does not spring compellingly from their sense of justice or duty?

On the one hand, Europe must depend in the long run on her own daily labour and not on the largesse of America; but, on the other hand, she will not pinch herself in order that the fruit of her daily labour may go elsewhere. In short, I do not believe that any of these tributes will continue to be paid, at the best, for more than a very few years. They do not square with human nature or agree with the spirit of the age.

If there is any force in this mode of thought, expediency and generosity agree together, and the policy which will best promote immediate friendship between nations will not conflict with the permanent interests of the benefactor.(12*)

III. An International Loan

I pass to a second financial proposal. The requirements of Europe are *immediate*. The prospect of being relieved of oppressive interest payments to England and America over the whole life of the next two generations (and of receiving from Germany some assistance year by year to the costs of restoration) would free the future from excessive anxiety. But it would not meet the ills of the immediate present -- the excess of Europe's imports over her exports, the adverse exchange, and the disorder of the currency. It will be very difficult for European production to get started again without a temporary measure of external assistance. I am therefore a supporter of an international loan in some shape or form, such as has been advocated in many quarters in France, Germany, and England, and also in the United States. In whatever way the ultimate responsibility for repayment is distributed, the burden of finding the immediate resources must inevitably fall in major part upon the United States.

The chief objections to all the varieties of this species of project are, I suppose, the following. The United States is disinclined to entangle herself further (after recent experiences) in the affairs of Europe, and, anyhow, has for the time being no more capital to spare for export on a large scale. There is no guarantee that Europe will put financial assistance to proper use, or that she will not squander it and be in just as bad case two or three years hence as she is in now: M. Klotz will use the money to put off the day of taxation a little longer, Italy and Jugoslavia will fight one another on the proceeds, Poland will devote it to fulfilling towards all her neighbours the military role which France has designed for her, the governing classes of Roumania will divide up the booty amongst themselves. In short, America would have postponed her own capital developments and raised her own cost of living in order that Europe might continue for another year or two the practices, the policy, and the men of the past nine months. And as for assistance to Germany, is it reasonable or at all tolerable that the European Allies, having stripped Germany of her last vestige of working capital, in opposition to the arguments and appeals of the American financial representatives at Paris, should then turn to the United States for funds to rehabilitate the victim in sufficient measure to allow the spoliation to recommence in a year or two?

There is no answer to these objections as matters are now. If I had influence at the United States Treasury, I would not lend a penny to a single one of the present governments of Europe. They are not to be trusted with resources which they would devote to the furtherance of policies in repugnance to which, in spite of the President's failure to assert either the might or the ideals of the people of the United States, the Republican and the Democratic parties are probably united. But if, as we must pray they will, the souls of the European peoples turn away this winter from the false idols which have survived the war that created them, and substitute in their hearts, for the hatred and the nationalism which now possess them, thoughts and hopes of the happiness and solidarity of the European family -- then should natural piety and filial love impel the American people to put on one side all the smaller objections of private advantage and to complete the work that they began in saving Europe from the tyranny of organised force, by saving her from herself. And even if the conversion is not fully accomplished, and some parties only in each of the European countries have espoused a policy of reconciliation, America can still point the way and hold up the hands of the party of peace by having a plan and a condition on which she will give her aid to the work of renewing life.

The impulse which, we are told, is now strong in the mind of the United States to be quit of the turmoil, the complication, the violence, the expense, and, above all,

the unintelligibility of the European problems, is easily understood. No one can feel more intensely than the writer how natural it is to retort to the folly and impracticability of the European statesmen -- Rot, then, in your own malice, and we will go our way --

Remote from Europe; from her blasted hopes;
Her fields of carnage, and polluted air.

But if America recalls for a moment what Europe has meant to her and still means to her, what Europe, the mother of art and of knowledge, in spite of everything, still is and still will be, will she not reject these counsels of indifference and isolation, and interest herself in what may prove decisive issues for the progress and civilisation of all mankind?

Assuming then, if only to keep our hopes up, that America will be prepared to contribute to the process of building up the good forces of Europe, and will not, having completed the destruction of an enemy, leave us to our misfortunes, what form should her aid take?

I do not propose to enter on details. But the main outlines of all schemes for an international loan are much the same. The countries in a position to lend assistance, the neutrals, the United Kingdom and, for the greater portion of the sum required, the United States, must provide foreign purchasing credits for all the belligerent countries of continental Europe, Allied and ex-enemy alike. The aggregate sum required might not be so large as is sometimes supposed. Much might be done, perhaps, with a fund of £200 million in the first instance. This sum, even if a precedent of a different kind had been established by the cancellation of inter-Ally war debt, should be lent and should be borrowed with the unequivocal intention of its being repaid in full. With this object in view, the security for the loan should be the best obtainable, and the arrangements for its ultimate repayment as complete as possible. In particular, it should rank, both for payment of interest and discharge of capital, in front of all reparation claims, all inter-Ally war debt, all internal war loans, and all other government indebtedness of any other kind. Those borrowing countries who will be entitled to reparation payments should be required to pledge all such receipts to repayment of the new loan. And all the borrowing countries should be required to place their customs duties on a gold basis and to pledge such receipts to its service.

Expenditure out of the loan should be subject to general, but not detailed, supervision by the lending countries.

If, in addition to this loan for the purchase of food and materials, a guarantee fund were established up to an equal amount, namely £200 million (of which it would probably prove necessary to find only a part in cash), to which all members of the League of Nations would contribute according to their means, it might be practicable to base upon it a general reorganisation of the currency.

In this manner Europe might be equipped with the minimum amount of liquid resources necessary to revive her hopes, to renew her economic organisation, and to enable her great intrinsic wealth to function for the benefit of her workers. It is useless at the present time to elaborate such schemes in further detail. A great change is necessary in public opinion before the proposals of this chapter can enter the region of practical politics, and we must await the progress of events as patiently as we can.

IV. The Relations of Central Europe to Russia

I have said very little of Russia in this book. The broad character of the situation there needs no emphasis, and of the details we know almost nothing authentic. But in a discussion as to how the economic situation of Europe can be restored there are one or two aspects of the Russian question which are vitally important.

From the military point of view an ultimate union of forces between Russia and Germany is greatly feared in some quarters. This would be much more likely to take place in the event of reactionary movements being successful in each of the two countries, whereas an effective unity of purpose between Lenin and the present essentially middle-class government of Germany is unthinkable. On the other hand, the same people who fear such a union are even more afraid of the success of Bolshevism; and yet they have to recognise that the only efficient forces for fighting it are, inside Russia, the reactionaries, and, outside Russia, the established forces of order and authority in Germany. Thus the advocates of intervention in Russia, whether direct or indirect, are at perpetual cross-purposes with themselves. They do not know what they want; or, rather, they want what they cannot help seeing to be incompatible. This is one of the reasons why their policy is so inconstant and so exceedingly futile.

The same conflict of purpose is apparent in the attitude of the council of the Allies at Paris towards the present government of Germany. A victory of Spartacism in Germany might well be the prelude to revolution everywhere: it would renew the forces of Bolshevism in Russia, and precipitate the dreaded union of Germany and Russia; it would certainly put an end to any expectations which have been built on the financial and economic clauses of the treaty of peace. Therefore Paris does not love Spartacus. But, on the other hand, a victory of reaction in Germany would be regarded by everyone as a threat to the security of Europe, and as endangering the fruits of victory and the basis of the peace. Besides, a new military power establishing itself in the East, with its spiritual home in Brandenburg, drawing to itself all the military talent and all the military adventurers, all those who regret emperors and hate democracy, in the whole of Eastern and Central and south-eastern Europe, a power which would be geographically inaccessible to the military forces of the Allies, might well found, at least in the anticipations of the timid, a new Napoleonic domination, rising, as a phoenix, from the ashes of cosmopolitan militarism. So Paris dare not love Brandenburg. The argument points, then, to the sustentation of those moderate forces of order which, somewhat to the world's surprise, still manage to maintain themselves on the rock of the German character. But the present government of Germany stands for German unity more perhaps than for anything else; the signature of the peace was, above all, the price which some Germans thought it worth while to pay for the unity which was all that was left them of 1870. Therefore Paris, with some hopes of disintegration across the Rhine not yet extinguished, can resist no opportunity of insult or indignity, no occasion of lowering the prestige or weakening the influence of a government with the continued stability of which all the conservative interests of Europe are nevertheless bound up.

The same dilemma affects the future of Poland in the role which France has cast for her. She is to be strong, Catholic, militarist, and faithful, the consort, or at least the favourite, of victorious France, prosperous and magnificent between the ashes of Russia and the ruin of Germany. Roumania, if only she could be persuaded to keep up appearances a little more, is a part of the same scatter-brained conception. Yet, unless her great neighbours are prosperous and orderly, Poland is an economic impossibility with no industry but Jew-baiting. And when Poland finds that the

seductive policy of France is pure rhodomontade and that there is no money in it whatever, nor glory either, she will fall, as promptly as possible, into the arms of somebody else.

The calculations of 'diplomacy' lead us, therefore, nowhere. Crazy dreams and childish intrigue in Russia and Poland and thereabouts are the favourite indulgence at present of those Englishmen and Frenchmen who seek excitement in its least innocent form, and believe, or at least behave as if foreign policy was of the same *genre* as a cheap melodrama.

Let us turn, therefore, to something more solid. The German government has announced (30 October 1919) its continued adhesion to a policy of non-intervention in the internal affairs of Russia, 'not only on principle, but because it believes that this policy is also justified from a practical point of view'. Let us assume that at last we also adopt the same standpoint, if not on principle, at least from a practical point of view. What are then the fundamental economic factors in the future relations of Central to Eastern Europe?

Before the war Western and Central Europe drew from Russia a substantial part of their imported cereals. Without Russia the importing countries would have had to go short. Since 1914 the loss of the Russian supplies has been made good, partly by drawing on reserves, partly from the bumper harvests of North America called forth by Mr Hoover's guaranteed price, but largely by economies of consumption and by privation. After 1920 the need of Russian supplies will be even greater than it was before the war; for the guaranteed price in North America will have been discontinued, the normal increase of population there will, as compared with 1914, have swollen the home demand appreciably, and the soil of Europe will not yet have recovered its former productivity. If trade is not resumed with Russia, wheat in 1920-1 (unless the seasons are specially bountiful) must be scarce and very dear. The blockade of Russia lately proclaimed by the Allies is therefore a foolish and short-sighted proceeding; we are blockading not so much Russia as ourselves.

The process of reviving the Russian export trade is bound in any case to be a slow one. The present productivity of the Russian peasant is not believed to be sufficient to yield an exportable surplus on the pre-war scale. The reasons for this are obviously many, but amongst them are included the insufficiency of agricultural implements and accessories and the absence of incentive to production caused by the lack of commodities in the towns which the peasants can purchase in exchange for their produce. Finally, there is the decay of the transport system, which hinders or renders impossible the collection of local surpluses in the big centres of distribution.

I see no possible means of repairing this loss of productivity within any reasonable period of time except through the agency of German enterprise and organisation. It is impossible geographically and for many other reasons for Englishmen, Frenchmen, or Americans to undertake it; we have neither the incentive nor the means for doing the work on a sufficient scale. Germany, on the other hand, has the experience, the incentive, and to a large extent the materials for furnishing the Russian peasant with the goods of which he has been starved for the past five years, for reorganising the business of transport and collection, and so for bringing into the world's pool, for the common advantage, the supplies from which we are now so disastrously cut off. It is in our interest to hasten the day when German agents and organisers will be in a position to set in train in every Russian village the impulses of ordinary economic motive. This is a process quite independent of the governing authority in Russia; but we may surely predict with some certainty that, whether or not the form of communism represented by Soviet government proves

permanently suited to the Russian temperament, the revival of trade, of the comforts of life and of ordinary economic motive are not likely to promote the extreme forms of those doctrines of violence and tyranny which are the children of war and of despair.

Let us then in our Russian policy not only applaud and imitate the policy of non-intervention which the government of Germany has announced, but, desisting from a blockade which is injurious to our own permanent interests, as well as illegal, let us encourage and assist Germany to take up again her place in Europe as a creator and organiser of wealth for her eastern and southern neighbours.

There are many persons in whom such proposals will raise strong prejudices. I ask them to follow out in thought the result of yielding to these prejudices. If we oppose in detail every means by which Germany or Russia can recover their material well-being, because we feel a national, racial, or political hatred for their populations or their governments, we must be prepared to face the consequences of such feelings. Even if there is no moral solidarity between the nearly related races of Europe, there is an economic solidarity which we cannot disregard. Even now, the world markets are one. If we do not allow Germany to exchange products with Russia and so feed herself, she must inevitably compete with us for the produce of the New World. The more successful we are in snapping economic relations between Germany and Russia, the more we shall depress the level of our own economic standards and increase the gravity of our own domestic problems. This is to put the issue on its lowest grounds. There are other arguments, which the most obtuse cannot ignore, against a policy of spreading and encouraging further the economic ruin of great countries.

I see few signs of sudden or dramatic developments anywhere. Riots and revolutions there may be, but not such, at present, as to have fundamental significance. Against political tyranny and injustice revolution is a weapon. But what counsels of hope can revolution offer to sufferers from economic privation which does not arise out of the injustices of distribution but is general? The only safeguard against revolution in Central Europe is indeed the fact that, even to the minds of men who are desperate, revolution offers no prospect of improvement whatever. There may, therefore, be ahead of us a long, silent process of semi-starvation, and of a gradual, steady lowering of the standards of life and comfort. The bankruptcy and decay of Europe, if we allow it to proceed, will affect everyone in the long run, but perhaps not in a way that is striking or immediate.

This has one fortunate side. We may still have time to reconsider our courses and to view the world with new eyes. For the immediate future events are taking charge, and the near destiny of Europe is no longer in the hands of any man. The events of the coming year will not be shaped by the deliberate acts of statesmen, but by the hidden currents, flowing continually beneath the surface of political history, of which no one can predict the outcome. In one way only can we influence these hidden currents -- by setting in motion those forces of instruction and imagination which change *opinion*. The assertion of truth, the unveiling of illusion, the dissipation of hate, the enlargement and instruction of men's hearts and minds, must be the means.

In this autumn of 1919 in which I write, we are at the dead season of our fortunes. The reaction from the exertions, the fears, and the sufferings of the past five years is at its height. Our power of feeling or caring beyond the immediate questions of our own material well-being is temporarily eclipsed. The greatest events outside our own direct experience and the most dreadful anticipations cannot move us.

In each human heart terror survives
 The ruin it has gorged: the loftiest fear
 All that they would disdain to think were true:
 Hypocrisy and custom make their minds
 The fanes of many a worship, now outworn.
 They dare not devise good for man's estate,
 And yet they know not that they do not dare.
 The good want power but to weep barren tears.
 The powerful goodness want: worse need for them.
 The wise want love; and those who love want wisdom;
 And all best things are thus confused to ill.
 Many are strong and rich, and would be just,
 But live among their suffering fellow-men
 As if none felt: they know not what they do.

We have been moved already beyond endurance, and need rest. Never in the lifetime of men now living has the universal element in the soul of man burnt so dimly.

For these reasons the true voice of the new generation has not yet spoken, and silent opinion is not yet formed. To the formation of the general opinion of the future I dedicate this book.

NOTES:

1. The figures for the United Kingdom are as follows:

Monthly average	Net imports (£31,000)	Exports (£31,000)	Excess of imports (£31,000)
1913	54,930	43,770	11,160
1914	50,097	35,893	14,204
Jan-Mar. 1919	109,578	49,122	60,456
April-June 1919	111,403	62,463	48,940
July-Sept 1919	135,927	68,863	67,064

But this excess is by no means so serious as it looks; for with the present high freight earnings of the mercantile marine the various 'invisible' exports of the United Kingdom are probably even higher than they were before the war, and may average at least £345 million monthly.

2. President Wilson was mistaken in suggesting that the supervision of reparation payments has been entrusted to the League of Nations. As I pointed out in chapter 5, whereas the League is invoked in regard to most of the continuing economic and territorial provisions of the treaty, this is not the case as regards reparation, over the problems and modifications of which the reparation commission is supreme, without appeal of any kind to the League of Nations.

3. These articles, which provide safeguards against the outbreak of war between members of the League and also between members and non-members, are the solid achievement of the covenant. These articles make substantially less probable a war between organised Great Powers such as that of 1914. This alone should commend the League to all men.

4. It would be expedient so to define a 'protectionist tariff' as to permit (a) the total prohibition of certain imports; (b) the imposition of sumptuary or revenue customs duties on commodities not produced at home; (c) the imposition of customs duties which did not exceed by more than 5% a countervailing excise on similar commodities produced at home; (d) export duties. Further, special exceptions might be permitted by a majority vote of the countries entering the union. Duties which had existed for five years prior to a country's entering the union might be allowed to disappear gradually by equal instalments spread over the five years subsequent to joining the union.

5. This allows nothing for interest on the debt since the Bolshevik Revolution.

6. No interest has been charged on the advances made to these countries.

7. The actual total of loans by the United States up to date is very nearly £32,000 million, but I have not got the latest details.

8. The figures in this table are partly estimated, and are probably not completely accurate in detail; but they show the approximate figures with sufficient accuracy for the purposes of the present argument. The British figures are taken from the White Paper of 23 October 1919 (Cmd. 377). In any actual settlement, adjustments would be required in connection with certain loans of gold and also in other respects, and I am concerned in what follows with the broad principle only. The sums advanced by the United States and France, which are in terms of dollars and francs respectively, have been converted at approximately par rates. The total excludes loans raised by the United Kingdom on the market in the United States, and loans raised by France on the market in the United Kingdom or the United States, or from the Bank of England.

9. The financial history of the six months from the end of the summer of 1916 up to the entry of the United States into the war in April 1917 remains to be written. Very few persons, outside the half-dozen officials of the British Treasury who lived in daily contact with the immense anxieties and impossible financial requirements of those days, can fully realise what steadfastness and courage were needed, and how entirely hopeless the task would soon have become without the assistance of the United States Treasury. The financial problems from April 1917 onwards were of an entirely different order from those of the preceding months.

10. Mr Hoover was the only man who emerged from the ordeal of Paris with an enhanced reputation. This complex personality, with his habitual air of weary Titan (or, as others might put it, of exhausted prize-fighter), his eyes steadily fixed on the true and essential facts of the European situation, imported into the councils of Paris, when he took part in them, precisely that atmosphere of reality, knowledge, magnanimity, and disinterestedness which, if they had been found in other quarters also, would have given us the Good Peace.

11. Even after the United States came into the war the bulk of Russian expenditure in the United States, as well as the whole of that government's other foreign expenditure, had to be paid for by the British Treasury.

12. It is reported that the United States Treasury has agreed to fund (i.e. to add to the principal sum) the interest owing them on their loans to the Allied governments during the next three years. I presume that the British Treasury is likely to follow suit. If the debts are to be paid ultimately, this piling up of the obligations at compound interest makes the position progressively worse. But the arrangement wisely offered by the United States Treasury provides a due interval for the calm consideration of the whole problem in the light of the after-war position as it will soon disclose itself.